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Jeff Hughes
Head of Democratic and Legal Support Services

MEETING	**:**	AUDIT COMMITTEE
VENUE	**:**	COUNCIL CHAMBER, WALLFIELDS, HERTFORD
DATE	**:**	WEDNESDAY 21 SEPTEMBER 2011
TIME	**:**	7.00 PM

PLEASE NOTE TIME AND VENUE

MEMBERS OF THE COMMITTEE

Councillor J Ranger (Chairman)
Councillors W Mortimer, P Phillips, M Pope, R Radford, N Wilson and J Wing

Substitutes

Conservative Group: Councillors C Rowley
Liberal Democrat Group: Councillor M Wood

(Note: Substitution arrangements must be notified by the absent Member to Democratic Services 24 hours before the meeting)

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PERSONAL AND PREJUDICIAL INTERESTS

1. A Member with a personal interest in any business of the Council who attends a meeting of the Authority at which the business is considered must, with certain specified exemptions (see section 5 below), disclose to that meeting the existence and nature of that interest prior to the commencement of it being considered or when the interest becomes apparent.

2. Members should decide whether or not they have a personal interest in any matter under discussion at a meeting. If a Member decides they have a personal interest then they must also consider whether that personal interest is also prejudicial.

3. A personal interest is either an interest, as prescribed, that you must register under relevant regulations or it is an interest that is not registrable but where the well-being or financial position of you, members of your family, or people with whom you have a close association, is likely to be affected by the business of the Council more than it would affect the majority of inhabitants of the ward(s) affected by the decision.

4. Members with personal interests, having declared the nature of that personal interest, can remain in the meeting, speak and vote on the matter unless the personal interest is also a prejudicial interest.

5. An exemption to declaring a personal interest applies when the interest arises solely from a Member's membership of or position of general control or management on:

    - any other body to which they have been appointed or nominated by the authority
    - any other body exercising functions of a public nature (e.g another local authority)

    In these exceptional cases, provided a Member does not have a prejudicial interest, they only need to declare their interest if they speak. If a Member does not want to speak to the meeting, they may still vote on the matter without making a declaration.

6. A personal interest will also be a prejudicial interest in a matter if all of the following conditions are met:

   - the matter does not fall within one of the exempt categories of decisions
   - the matter affects your financial interests or relates to a licensing or regulatory matter
   - a member of the public, who knows the relevant facts, would reasonably think your personal interest is so significant that it is likely to prejudice your judgement of the public interest.

7. Exempt categories of decisions are:

   - setting council tax
   - any ceremonial honour given to Members
   - an allowance, payment or indemnity for Members
   - statutory sick pay
   - school meals or school transport and travelling expenses: if you are a parent or guardian of a child in full-time education or you are a parent governor, unless it relates particularly to the school your child attends
   - housing; if you hold a tenancy or lease with the Council, as long as the matter does not relate to your particular tenancy or lease.

8. If you have a prejudicial interest in a matter being discussed at a meeting, you must declare that interest and its nature as soon as the interest becomes apparent to you.

9. If you have declared a personal and prejudicial interest, you must leave the room, unless members of the public are allowed to make representations, give evidence or answer questions about the matter, by statutory right or otherwise. If that is the case, you can also attend the meeting for that purpose. However, you must immediately leave the room once you have finished or when the meeting decides that you have finished (if that is earlier). You cannot remain in the public gallery to observe proceedings.

AGENDA

1. Treasury Management - Member Training

2. Apologies

   To receive apologies for absence.

3. Minutes (Pages 7 - 16)

   To confirm the Minutes of the meeting held on 12 July 2011.

4. Chairman's Announcements

5. Declarations of Interest

   To receive any Member's Declarations of Interest and Party Whip arrangements.

6. Treasury Management Strategy Statement 2010/11 and Current Year Review (Pages 17 - 30)

7. Financial Resilience - Presentation by Grant Thornton

8. External Auditor's Annual Report to those charged with Governance (ISA 260) (Pages 31 - 54)

9. Statement of Accounts (Pages 55 - 126)

10. Draft 2010/11 Annual Governance Statement (Pages 127 - 152)

11. Internal Audit Service Position Statement (Pages 153 - 176)

12. Risk Management Monitoring report 1 May - 30 June 2011 (Pages 177 - 182)

13. Audit Committee Work Programme (Pages 183 - 188)

14. Urgent Business

To consider such other business as, in the opinion of the Chairman of the meeting, is of sufficient urgency to warrant consideration and is not likely to involve the disclosure of exempt information.

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A A

MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD IN THE COUNCIL CHAMBER, WALLFIELDS, HERTFORD ON TUESDAY 12 JULY 2011, AT 7.00 PM

PRESENT: Councillor J Ranger (Chairman)
Councillors W Mortimer, P Phillips, M Pope and R Radford

OFFICERS IN ATTENDANCE:

Lorraine Blackburn	-	Committee Secretary
Simon Chancellor	-	Head of Financial Support Services
Chris Gibson	-	Internal Audit and Business Improvement Manager
Alan Madin	-	Director of Internal Services

ALSO IN ATTENDANCE:

Paul Dossett	-	Grant Thornton
Margaret Mulkerrin	-	Shared Internal Audit Service
Nick Taylor	-	Grant Thornton

149 THE ROLE OF AUDIT COMMITTEE - TRAINING ITEM FOR MEMBERS

The Chairman welcomed new Members.

A training presentation was provided by the Internal Audit and Business Improvement Manager on the role of the Audit Committee.

The Internal Audit and Business Improvement Manager drew Members' attention to the terms of reference of Audit Committee and the Committee's work programme. In the absence of Councillor J Wing, the Chairman asked Officers to contact the Member and draw his attention to the Terms of Reference as set out in the report now submitted.

Members thanked the Internal Audit and Business Improvement Manager for his presentation.

150 APOLOGIES

Apologies for absence were received from Councillors N Wilson and J Wing.

151 MINUTES

RESOLVED – that the Minutes of the Audit Committee meeting held on 23 March 2011 be confirmed as a correct record and signed by the Chairman.

152 EXTERNAL AUDITOR'S REPORT - REVIEW OF ARRANGEMENTS FOR IMPLEMENTATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

The External Auditor submitted a report on a review of arrangements for the implementation of the new International Financial Reporting Standards (IFRS). Nick Taylor stated that the Council's overall arrangements for IFRS restatement were adequately planned for and focussed on key risk areas.

A Member sought clarification in relation to accounting policies. This was provided.

Members noted the report.

RESOLVED – that the report be noted.

153 EXTERNAL AUDITOR'S REPORT - ACCOUNTS AUDIT APPROACH MEMORANDUM

The External Auditor submitted a report setting out the Audit Strategy to be taken in relation to:

- Planning
- Control evaluation
- Substantive Procedures
- Completion

Nick Taylor stated that there were no significant issues to report with the exception of IT which Members agreed needed to be kept under review.

A Member sought clarification on the use of valuation experts and follow up time scales in relation to IT recommendations. The Director of Internal Services said that management issues around IT had now been addressed. Officers undertook to keep IT under review.

Members received the report.

RESOLVED – that the report be received.

154 EXTERNAL AUDITOR'S REPORT - ANNUAL GOVERNANCE STATEMENT - ADDING REAL VALUE?

The External Auditor submitted a report regarding the main issues of the Annual Governance Statement: Adding Real Value? The report highlighted weaknesses by some local authorities and what needed to be done for the Statement to add real value.

The Chairman thanked the External Auditor and said that it was a useful summary of what the External Auditors had found.

RESOLVED – that the report be received.

155 EXTERNAL AUDITOR'S REPORT - CERTIFICATION WORK - PLANNING MEMORANDUM 2010 – 2011

The External Auditors submitted a report on the approach taken regarding the external certification of claims for grant or subsidy and returns of financial information by the External Auditors acting as agent for the Audit Commission. The report explained what the certification arrangements were, the fees charged, the types of claims and other work including protocols for the 2010-11 claims and returns. Nick Taylor explained that there was one other grant claim which had not been included in the report as submitted, the detail of which was provided.

Members received the report.

RESOLVED – that the report be received.

156 EXTERNAL AUDITOR'S REPORT - INDICATIVE AUDIT FEES 2011/12

The External Auditors submitted a report summarising the audit work proposed for the 2011/12 financial year. It was noted that the fee set for 2011/12 represented a 5% decrease on the 2010/11 fee and that fees were still set by the Audit Commission and based on the assumption that detailed working papers would be provided by an agreed timetable.

Paul Dossett referred to 31 August 2011 when local electors would be able to review the Council's accounts. It was anticipated that there would be no complications arising from this.

Members received the report.

RESOLVED – that the report be received.

157 STATEMENT OF ACCOUNTS 2010-2011

The Executive Member for Resources and Internal Support submitted a report, following changes to the new Accounts and Audit Regulations. The Director of Internal Services referred to the new IFRS standards and delegation to Audit Committee, to approve the Annual Statement of Accounts. He explained the transitional effects of the IFRS on the Council's accounts in terms of building in resilience.

The Director of Internal Services encouraged Members to question and seek clarification whenever they felt necessary so that answers could be provided in a clear and transparent manner. The Head of Financial Support Services guided Members through the content of the Accounts, attached to the report now submitted.

Members discussed a number of issues in relation to the new arrangements and the effects on Council Tax, asset values, the pension fund and the Council's liability. Members queried repaying debt at higher rates of interest when it had a healthy level of reserves. This was explained. Clarification was provided in relation to the Council's approach to depreciation generally and specifically in relation to the use of refuse vehicles.

The Chairman encouraged Members to contact either the Director of Internal Services or the Head of Financial Support Services on any issue which needed clarification and in advance of the final accounts being submitted to Audit Committee on 21 September, 2011. He thanked Officers for their detailed explanation of the Council's accounts.

Members received the report and noted the new requirements.

> RESOLVED – that the production and authorisation by the Section 151 Officer of the Council's 2010/11 draft accounts in line with statutory requirements, be noted.

158 INTERNAL AUDIT SERVICE 2010/11

The Internal Audit and Business Improvement Manager submitted a report outlining the Internal Audit activity relating to the financial year 2010/11, including independent assurance options on various areas of internal control. The overall level of assurance was reported as "good" including that of performance indicators. Members noted that good risk management practices had been delivered throughout 2010/11. The Internal Audit and Business Improvement Manager drew Members' attention to concerns around IT and that measures would be taken to keep this under review.

The Chairman, on behalf of Members, thanked the Internal Audit and Business Improvement Manager for the detailed report and thanked officers for their excellent work during the last year.

RESOLVED – that the report be received.

159 INTERNAL AUDIT SERVICE POSITION STATEMENT

The Internal Audit and Business Improvement Manager submitted a report detailing the position on internal audit activity since the previous Audit Committee.

It was noted that excellent progress had been made in clearing outstanding audit recommendations since the last Committee, with 32 recommendations shown as being resolved but that there had been limited movement in relation to ICT issues which would be kept under review by Margaret Mulkerrin, the new Audit Manager under the Shared Internal Audit Service (SIAS) arrangement.

Margaret Mulkerrin explained that efficiencies would be generated under the new ways of working including the ability to develop areas of expertise. She reassured Members that Hertfordshire County Council would not be taking over the internal audit function, but that, it was a collaborative way of working.

Members received the report.

RESOLVED – that the report be received.

160 AN INTRODUCTION TO THE SHARED INTERNAL AUDIT SERVICE

The Chairman welcomed Margaret Mulkerrin, Audit Manager of the new Shared Internal Audit Services (SIAS). She apologised that the Head of Assurance, Helen Maneuf was unable to attend but would attend future meetings. Margaret

Mulkerrin explained that the shared service had been operational from 1 July 2011 and that a partnership had been formed between the following Councils:

- East Herts District Council
- Hertfordshire County Council
- Hertsmere Borough Council
- North Hertfordshire District Council
- Stevenage Borough Council
- Welwyn Hatfield Borough Council.

Margaret Mulkerrin provided an update in relation to staffing issues. The aim of the SIAS was to maintain the prevailing quality and continuity and to enhance resilience.

The Chairman said that Members were pleased with the format of reports to Committee and emphasised the need to ensure that they were written in plain English.

Members noted the report.

RESOLVED – that the report be noted.

161 RISK MANAGEMENT MONITORING 1 FEBRUARY 2011 - 30 APRIL 2011

The Leader of the Council submitted a report on action taken to mitigate and control strategic risks during the period 1 February to 30 April 201. The Director of Internal Services provided an update on how risks were evaluated and on those ratings which had not remained the same. He referred to the continued need to work "smarter".

The Chairman referred to the need to manage the public's expectations on issues around devolving matters to the parish councils. The Director of Internal Services emphasised the need for transparency of decision making and the need for clear leadership.

Members received the report and were pleased to see the significant movement made during the year.

RESOLVED – that the action taken to mitigate and control strategic risks during the period 1 February to 30 April 2011 and of the significant movement made during the year be noted.

162 UPDATE ON IMPLEMENTATION OF ANNUAL GOVERNANCE STATEMENT ACTION PLAN

The Internal Audit and Business Improvement Manager submitted a report on the progress made against implementing the action plan contained in the 2009/10 Annual Governance Statement, attached to the report now submitted. The statement included 19 measures to enhance East Hertfordshire Council's internal control framework during the period 2010/2011. Eight issues had been resolved since the previous Committee meeting with 7 outstanding issues to be carried forward to the 2010/11 Annual Governance Statement.

Members received the report and noted the excellent progress made in managing the action plan.

RESOLVED – that the excellent progress made against implementing the action plan contained in the 2009/10 Annual Governance Statement be noted.

163 DRAFT 2010/11 ANNUAL GOVERNANCE STATEMENT

The Leader of the Council submitted a report setting out the draft 2010/11 Annual Governance Statement attached as Essential Reference Paper "B" to the report now submitted. The Annual Governance Statement was a prerequisite of the Accounts and Audit Regulations 2003 (as amended) and as such, the Council was required to undertake regular reviews of its governance arrangements to ensure continuing compliance with best practice.

The Internal Audit and Business Improvement Manager outlined the consultation process that was intended to lead to approval of the Annual Governance Statement at the next meeting of the Audit Committee.

The External Auditor reminded Members of the need to ensure that governance issues for inclusion in the Annual Governance Statement to enhance internal control, were key and strategic.

Members noted that the Annual Governance Statement was valuable and commented on the need to monitor the content quarterly.

> RESOLVED – that the Draft 2010/11 Annual Governance Statement be received as part of the wider consultation process.

164 AUDIT COMMITTEE WORK PROGRAMME

The Internal Audit and Business Improvement Manager submitted the Audit Committee Work Programme for the 2011/12 civic year, as set out in Essential Reference Paper "B" attached to the report now submitted. The Internal Audit and Business Improvement Manager stated that further training was being investigated to assist Members in relation to Risk Management, Treasury Management and Corporate Governance matters.

Members supported a request that Treasury Management training be given initial priority.

> RESOLVED – that the work programme for Audit Committee as amended, be approved.

The meeting closed at 9.10 pm

Chairman ....

Date ....

EAST HERTS COUNCIL

AUDIT COMMITTEE - 21 SEPTEMBER 2011

REPORT BY EXECUTIVE MEMBER FOR RESOURCES AND INTERNAL SUPPORT

TREASURY MANAGEMENT STRATEGY STATEMENT 2010/11 AND PRUDENTIAL CODE REVIEW

WARDS AFFECTED: ALL

Purpose/Summary of Report

- This report reviews the Council's 2010/11 Treasury Management and Prudential Code arrangements and updates the current year position.

RECOMMENDATION FOR AUDIT COMMITTEE:	
(A)	**that the 2010/11 Treasury Management and Prudential Indicator Out-turn be approved; and**
(B)	**the current year position to the 31 July 2011 be noted.**

1.0 Background

1.1 This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

1.2 During 2010/11 the minimum reporting requirements were that the relevant committee should receive the following reports:

- an annual treasury strategy in advance of the year (Council 24/2/2010)
- an annual report following the year describing the activity compared to the strategy (this report)

1.3 Recent changes in the regulatory environment place a much greater onus on members for the review and scrutiny of treasury management policy and activities. This report is important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

1.4 This Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the relevant Committee before they were reported to the full Council.

2.0 Report

2.1 This annual treasury report covers:

- Capital spending and financing during the year;
- Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
- Reporting of the required prudential and treasury indicators;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
- Summary of interest rate movements in the year;
- Detailed debt activity; and
- Detailed investment activity
- The Council's current treasury positions as at 31/7/2011.

2.2. The Council's Capital Expenditure and Financing 2010/11

The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

£m	2009/10 Actual	2010/11 Estimate	2010/11 Actual
Non-HRA capital expenditure	7.173	6.426	5.909
Total capital expenditure	**7.173**	**6.426**	**5.909**
Resourced by:			
• Capital receipts	6.579	5.711	5.182
• Capital grants	0.569	0.690	0.702
• Capital reserves			
• Revenue	0.025	0.025	0.025

2.3 The Council's overall borrowing need

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position. The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend.

Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWLB] or the money markets), or utilising temporary cash resources within the Council.

The Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are charged to revenue at a rate broadly in line with the life of the asset. To achieve this the Council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

The total CFR can also be reduced by:

- the application of additional capital financing resources (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

The Council's 2010/11 MRP Policy (as required by CLG Guidance) was approved as part of the Treasury Management Strategy Report for 2010/11 on 24/2/2010.

The borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit.

To ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments, must be for capital purposes. The Council requires specific approval by the Secretary of State to borrow for revenue purposes. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2010/11 plus the expected changes to the CFR over 2011/12 and 2012/13. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2010/11. The table below highlights the Council's net borrowing position against the CFR. The Council has complied with this prudential indicator.

	31 March 2010 Actual	31 March 2011 Original	31 March 2011 Actual
Net borrowing position	£(65.57)m	£(64.00)m	£(61.198)m
CFR	£(47.282)m	£(44.50)m	£(47.281)m

The authorised limit - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The table below demonstrates that during 2010/11 the Council has maintained gross borrowing within its authorised limit.

The operational boundary – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

Actual financing costs as a proportion of net revenue stream - this indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

Authorised limit February 2010	£20.3m
Maximum gross borrowing position outturn	£9 m
Operational boundary February 2010	£13.3m
Average gross borrowing position outturn	£7.6m
Financing costs as a proportion of net revenue stream – anticipated February 2010 budget	(6.25%)
Financing costs at outturn	(1.21%)

2.4 Treasury Position as at 31 March 2011

The Council's treasury management service manages debt and investment to ensure adequate liquidity for revenue and capital activities, security of investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices. At the beginning and the end of 2010/11 the Council's treasury position was as follows:

TABLE 1	31 March 2011 Principal		Rate/ Return	Average Life yrs	31 March 2010 Principal	Rate/ Return	Average Life yrs
Fixed rate funding:							
-PWLB	£1.5m				£1.5m		
-Market	£6.0m	£7.5m	8.8%		£6.0m	8.8%	
Variable rate funding:							
-PWLB	£nil				£nil		
-Market	£nil	£0.0m			£nil	0%	
Total debt		***7.5m***	***8.8%***		***£7.5m***	***8.8%***	
Investments:							
- in house	£1.99m		0.9%		£2.15m	0.9%	
- with managers	£66.91m		1.19%		£71.09m	2.44%	
Total investments		***£68.9m***	***1.18%***		***£73.24m***	***2.4%***	

The maturity structure of the debt portfolio was as follows:

	31 March.2010 actual	2010/11 original limits	31 March.2011 actual
5 years and within 10 years	£0.0m	£6.0m	£6.0m
10 years and above	£7.5m	£1.5m	£1.5m

Investments - no fixed deposits held as at 31st March 2011 exceed 1 year.

3.0 The Strategy for 2010/11

The strategy for 2010/11 anticipated low but rising Bank Rate (starting in quarter 4 of 2010) with similar gradual rises in medium and longer term fixed interest rates over 2010/11. Variable or short-term rates were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

The strategy adopted in the original Treasury Management Strategy Report for 2010/11 approved by the Council on 24/02/2010 was revised during the year due to permit, within limits, longer term structured deposits to improve returns.

4.0 The Economy and Interest Rates

The first half of 2010 saw the economy outperform expectations then decline in the final quarter of 2010 in part due to inclement weather conditions. The year finished with expectations for the UK economy being downgraded over the short to medium term.

The down grade reflected the new coalition Government's public spending cuts announced in the October Comprehensive Spending Review, and the lack of any "giveaway" in the March 2011 Budget. There was external support for the priority given to managing the spending deficit notwithstanding impact on economic growth. The government's view was that its spending reduction plans proved timely at a time when market fears moved to sovereign debt issues, particularly in the peripheral Euro zone countries. Local authorities were also presented with changed circumstances following the unexpected change of policy on Public Works Loan Board (PWLB) lending arrangements in October 2010. This resulted in an increase in new borrowing rates of 0.75 – 0.85%, without an associated increase in early redemption rates. This made new borrowing more expensive and repayment relatively less attractive.

Deposit rates picked up modestly in the second half of the year as rising inflationary concerns, and strong first half growth, fed through to market expectations of increases in Bank Rate. However, by March 2011 consensus expectations of the first UK rate rise moved back from May to August 2011 despite high inflation. The mix of slow domestic economic growth and above target inflation encouraged a wide range of views on the timing of the start of increases in Bank Rate in a band from May 2011 through to early 2013.

5.0 Borrowing Rates in 2010/11

PWLB borrowing rates – the table for PWLB maturity rates below show a selection of maturity periods, and individual rates at the start and the end of the financial year.

5 Yr	01/04/10	2.84%	31/3/11	3.57%
10 Yr	01/04/10	4.14%	31/3/11	4.71%
25 Yr	01/04/10	4.62%	31/3/11	5.32%

The decision by the PWLB to raise its lending rates by about 0.75 – 0.85% did not reflect the market and underlying rates were generally unchanged from the position at 1 April 2010.

6.0 Borrowing Outturn for 2010/11

6.1 Due to the high rates of interest payable on the outstanding £1.5 million PWLB loans and the continuing low level of the corresponding discount rates for 5 year and 30 year + maturities any potential restructuring or premature repayment of the two loans was considered to be too expensive as their repayment would attract heavy premia.

6.2 The £6 million loan stock is part of a 'club' deal. Any move to prematurely redeem the stock would require the consent of all members of the deal and hereto any early redemption would attract a costly premium.

6.3 No new borrowings to finance capital expenditure were undertaken. and capital receipts were applied (thereby reducing investments).

7.0 Investment Rates in 2010/11

The tight monetary conditions following the 2008 financial crisis continued through 2010/11 with little material movement in the shorter term deposit rates. Bank Rate remained at its historical low of 0.5% throughout the year, although growing market expectations of the imminence of the start of monetary tightening saw 6 and 12 month rates picking up.

Overlaying the relatively poor investment returns was the continued counterparty concerns, most evident in the Euro zone sovereign debt crisis which resulted in rescue packages for Greece, Ireland and latterly Portugal. Concerns extended to the European banking industry with an initial stress testing of banks failing to calm counterparty fears, resulting in a second round of testing currently in train. This highlighted the ongoing need for caution in treasury investment activity.

8.0 Investment Outturn for 2010/11

The Council's investment policy is governed by CLG guidance, which was been implemented in the annual investment strategy approved by the Council on 24/02/2010. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.*)* The policy originally approved was amended in December 2010 to reconsider the balance between risks & returns. The approval was given to invest £30m of funds in fixed term structure deposits with UK banks.

8.1 Funds coming available from day to day cash flow were placed with our bankers when needed immediately or placed on short term deposit with SWIP (Scottish Widows).

8.2 Analysts' consideration of counterparty risks gave more weight to countries as a whole and their ability to underwrite their banks and less to individual institutions. This tightened the lending lists further because of the banks' exposure to foreign governments. The return was 0.9% on the balance held with our bank.

8.3 The Council has investments managed externally by Investec and Scottish Widows (SWIP). The fund management agreements between the Council and the Fund Manager defines the limits for maximum weighting in gilts/bonds and maximum duration of the fund. Counterparty criteria and exposure limits are also pre-defined therein.The stance/diversity of the two different types of funds can be seen in the returns for the year.

SWIP has outperformed the 7 day Libid benchmark by 0.76%. Although it has been a difficult year for the industry with many changes in market conditions, nonetheless this was a good performance. Benefiting from the assets traded and held in the Money Market Fund. SWIP made a strategic decision to steer clear of the gilt market.

This has been a challenging year for Investec, with them staying out of the gilt markets and consequently failing to benefit from short dated gilts when they traded well due to liquidity issues and capital requirements. Alternatively they invested in CDs but failed to make significant gains. However with the expectation of the commencement of the withdrawal of funds (for structured deposits) , this curtailed activity in the last months. After following a cautious approach at the beginning of the year, they under performed the 1-3 year gilt index benchmark by 0.68%.

The table below sets out a summary of the investment returns achieved compared to benchmarks.

	Average Investment	**Rate of Return (gross of fees)**	**Rate of Return (net of fees)**	Benchmark Return %
Internally Managed	2.461m	0.9%	N/A	7 day LIBID 0.4% (not compounded)
Externally Managed				
SWIP	39.49m	1.24%	1.2%	7 day LIBID 0.42%
Investec	34.52m	1.14%	0.95%	1-3 year Gilt Index 1.63%

9.0 Current Position 2011/12

9.1 Prudential Indicators

As at the end of July 2011 the data suggests that no changes are required to the current indicators that were approved by Council on 24 February 2010.

9.2 In-House Funds

Further as stated in the report, the policy to move funds into structured deposits commenced with £10m being invested with Lloyds Bank P L C (April 2011). This has a minimum return of 3.72% and a maximum of 6.5% dependent on 3 month LIBOR rates for 4 years. It was intended to complete a 2nd tranche by now but the movement in market conditions and the uncertainty that exists has not made this feasible at returns which are attractive to lock in.

9.3 Fund Managers

Annualised returns for the first quarter for the fund managers are: Scottish Widows Investment Partnership 0.44% and Investec 0.30% per annum. The current projections indicate an overall return of between £975k and £1,025k indicating a budget shortfall of £150 - £200k. Impact on performance against budgeted assumption is being reported through the monthly healthcheck report.

The lower rate of return being achieved by Investec is partly due to the expectation of all the funds being withdrawn and placed in structured deposits. Other alternative short term deposits (say 3 months) are being investigated. Going forward changes to the CIPFA code may make it possible to invest in more wide ranging funds that could be more productive, if the structured deposit market does not stabilise.

9.4 MRP Policy

Under new regulations the Council are required to determine appropriate provisions for repayment of debt (MRP) on a prudent basis. The Regulations allow for an approach in line with previous provisions which for this Council resulted in no provision needing to be made given the Council's "negative" capital financial requirements (set aside receipts significantly in excess of outstanding debt). The Annual Treasury Management Strategy proposals will consider the ongoing position and approve any changes to this approach.

10.0 Implications/Consultations

10.1 Information on corporate issues and consultation associated with this report can be found within **Essential Reference Paper A**

Background Papers

None

Contact Member:	Councillor Michael Tindale, Executive Member for Resources and Internal Support
Contact Officer:	Alan Madin, Director of Internal Services - Ext 1401 Simon Chancellor, Head of Financial Support Services Ext 2050
Report Author:	Paul Mitchell – Principal Accountant – Ext 2059

Contribution to the Council's Corporate Priorities/Objectives:	**Fit for purpose, services fit for you** *Deliver customer focused services by maintaining and developing a well managed and publicly accountable organisation.*
Consultation:	None
Legal:	There are no legal implications in the report.
Financial:	As set within the report.
Human Resource:	There are no Human Resources implications in the report.
Risk Management:	The current low returns on investments will impact on MTFP. Discussions are still ongoing about any options to improve returns.

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Grant Thornton

East Hertfordshire District Council

Review of the Council's arrangements for securing financial resilience

September 2011

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Grant Thornton

Section 1

Executive summary

1.	Executive summary
2.	Key Indicators
3.	Strategic Financial Planning
4.	Financial Governance
5.	Financial Control

Introduction

Context

The Chancellor of the Exchequer announced the 2010 Spending Review (SR10) to Parliament on 20 October 2010. This formed a central part of the Coalition Government's response to reducing the national deficit, with the intention to bring public finances back into balance during 2014/15.

The associated report published Government Departmental Expenditure Limits (DELs) for the four-year spending review period: 2011/12 to 2014/15. CLG funding was reduced by 26% over the period.

SR10 represented the largest reductions in public spending since the 1920's. Revenue funding to local government will reduce by 19% by 2014/15 (excluding schools, fire and police). After allowing for inflation, this equates to a 28% reduction in real terms with local government facing some of the largest cuts in the public sector. In addition, local government funding reductions have been frontloaded, with 8% cash reductions in 2011/12.

The provisional Local Government Finance Settlement was announced on 13 December 2010. The final figures were announced on 31st January with the debate and approval by the House of Commons on 9th February. This represents a two year funding announcement, because the Government is delaying a decision on later years until after their review of local government finance.

This follows a period of sustained growth in local government spending, which increased by 45% (including schools and social services) during the period 1997 to 2007. The funding reductions come at a time when demographic and recession based factors are increasing demand for some services, and there is a decreasing demand for some services, such as car parking, where customers pay a fee or charge.

Our Approach

Value for Money Conclusion
As part of the work informing our 2010/11 Value for Money (VFM) conclusion we have undertaken a review to determine if the Council has adequate arrangements in place for securing financial resilience.

In so doing we have considered whether the Council has robust financial systems and processes in place to manage its financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

The definition of foreseeable future for the purposes of this financial resilience review is 12 months from the date of this report .

We have reviewed the financial resilience of the Council by looking at:

- Key indicators of financial performance;
- Its approach to strategic financial planning;
- Its approach to financial governance; and
- Its approach to financial control.

Further detail on each of these areas is provided in the sections of the report that follow. In overall terms the conclusion from this report is that the Council has adequate arrangements in place for achieving financial resilience.

We have used a red / amber / green (RAG) rating with the following definitions.

Green	**No cause for concern**. Adequate arrangements identified and key characteristics of good practice appear to be in place.
Amber	**Potential risks and / or weaknesses**. Adequate arrangements and characteristics are in place in some respects, but not all . Evidence that the Council is taking forward areas where arrangements need to be strengthened.
Red	**High risk**: The Council's arrangements are generally inadequate and not in line with good practice.

Our findings are detailed between pages 6 and 41 of this report.

All findings and recommendations have been discussed with senior officers. Details of the recommendations can be found on pages 8 and 9.

Overview of Arrangements

Area	Summary observations	Summary level risk assessment
Key Indicators of Performance	• The Council has a good track record of financial management, achieving net underspends in each of the last three years. • Benchmarked key indicators of performance indicate that the Council hold an average level of useable reserves compared to their nearest neighbours. The comparison also highlights a strong position in terms of working capital. However, it is clear that working capital will come under increasing pressure as a result of the CSR and will need to be carefully monitored. • Sickness levels have been showing a reducing trend and current performance reflects well against both public sector and private sector averages. Absence management will be a particular challenge for all authorities going forward, given the context of significant pressures on staff to deliver 'more for less' • The Council will need to carefully monitor these financial indicators to ensure that it remains financially resilient during the MTFP period.	Green
Strategic Financial Planning	• The Council was able to undertake the most recent MTFP process with an effective lead in time and the process had a high level of stakeholder engagement. • The Council has strengthened its financial planning process in light of the Government's deficit reduction programme. It is clear that the Council took account of its corporate priorities when setting what was a challenging budget. • Key to the MTFS is also how the Council manage their capital going forward. It is intended that a significant proportion of the proposed programme will be funded from available capital receipts. This could prove challenging given the current economic outlook. In addition to this, there may be a requirement for the Council to undertake borrowing in the medium term. The Council must closely monitor the potential risks around the funding of the plan. • The Council will need to continue to monitor the MTFP during its delivery, in particular in relation to the impact of price inflation in the medium term, and the outcome of the Government's funding settlement for the final two years of the plan. In addition, work is still required to ensure savings assumptions in the latter years of the plan are effectively developed and the savings realised.	Green

Key:
- High risk area
- Potential risks and/or weaknesses in this area
- No causes for concern

Overview of Arrangements

Area	Summary observations	Summary level risk assessment
Financial Governance	• The Council has good Executive and member engagement in the financial management process. • The Council has a well established approach and appropriate processes in place in relation to financial governance and has delivered good results in recent financial years. • The finance reports provided for the Executive provide a detailed narrative regarding the performance of the Council. The reports include a detailed breakdown of variances to budget, including comments against each. • The Council have recognised the importance of a clear understanding of financial information. Review of all reports presented to Committee identifies that financial implications must be considered in all cases.	Green
Financial Control	• The Council has a robust approach to financial and performance management and associated financial controls. • The Council has a good record in controlling spend and in achieving efficiencies and savings. • All savings are required to show both their link to objectives and also their impact. A risk assessment of the ability to deliver the saving is also required. The Council should consider Red/Amber/Green (RAG) rating their savings proposals both in terms of deliverability and public acceptability. This would help provide a greater degree of clarity. • Savings are monitored as part of the monthly healthcheck process. The budgets at the start of the year take on board the planned savings, and performance is then measured against the base budgets. Consideration should be given to monitoring the achievement of savings on a line by line basis. This separate monitoring process would help to scrutinise the delivery of savings and it is considered good practice to separately monitor budgets and savings. • It is anticipated that the Shared Internal Audit Service (SIAS) will increase resilience and give a greater economy of scale to allow access to specialist audit skills. However, to all members of the shared service, it is vital that quality is high and that each member is provided with sufficient levels of IA work and assurance. The Council must ensure that suitable monitoring arrangements are put in place to maintain a high standard of internal audit support.	Green

Key:
- High risk area
- Potential risks and/or weaknesses in this area
- No causes for concern

Recommendations

Area of review	Recommendations	Responsibility	Timescale	Comment
Key Indicators of Performance	The Council should continue to maintain appropriate levels of reserves and monitor the Council's liquidity and other key financial ratios to ensure financial resilience is maintained.	Director of Internal Services	Ongoing - Quarterly	The Council's policy on reserves triggers a reporting requirement if reserves move outside floor / ceiling banding.
Strategic Financial Planning	The Council should continue to monitor the MTFP during it's delivery, in particular in relation to changes to key assumptions, such as the impact of price inflation in the medium term, and the outcome of the Government's funding settlement for the final two years of the plan. In addition, work must be performed to ensure savings assumptions in the latter years of the plan are effectively developed and the savings realised.	CMT	Each annual budget cycle	Future years savings proposals are reviewed at each budget cycle. Any which are determined to be not deliverable will be reconsidered.
	The Council should consider adopting Zero Based Budgeting to better understand Member's priorities and improve the financial planning and budget setting process. This should be in a controlled context linked to priorities and where the nature of services allows for effective implementation.	Director of Internal Services	Each annual budget cycle	The Council adopts a zero based budget approach when a service is subject to major change such as a shared service (Revs & Bens), contract renewal (refuse collection), physical relocation (Wallfields), major policy changes (housing services) or capital investment (Hertford Theatre). A comprehensive zero based budgeting approach is potentially beyond the resources the Council is able to apply as management capacity is being reduced. The BPI process under C3W has identified efficiency options for major services.
	The Council should consider whether more detailed scenario planning and sensitivity analysis around key variables such as the grant settlement, interest rates, inflation and pay awards might assist a wider understanding of the budget risks	Director of Internal Services	2012/13 budget round	In considering the risks around budgets when commenting on the robustness of estimates an indication of the impact of changed assumptions will be added.

Recommendations

Area of review	Recommendations	Responsibility	Timescale	Comment
Financial Control	The Council should consider Red/Amber/Green (RAG) rating their savings proposals both in terms of deliverability and public acceptability. This would help provide a greater level of clarity for members.	Director of Internal Services	Annual budget cycle	During the development of savings options a categorisation process is adopted and a RAG rating will clarify this approach.
	The Council should consider monitoring the achievement of savings on a line by line basis. This separate monitoring process would help scrutinise the delivery of savings and it is considered good practice to separately monitor budgets and savings.	CMT	With effect from 1 October 2011	This will provide a useful additional level of monitoring.
	The Council should ensure that suitable monitoring arrangements are put in place to maintain a high standard of Internal Audit support following the creation of the Shared Internal Audit Service (SIAS).	Director of Internal Services	In place	The monitoring process will operate at the level of: • Individual audits - auditees and reporting • Liaison meetings - Director of Internal Services and Lead Auditor • SIAS Board - CFO's of partner authorities • Audit Committee - reports from Head of SIAS
	The Council should ensure its financial system is upgraded in a timely fashion and service managers are engaged in that process to extend the range of users.	Director of Internal Services	In place	•A recommendation to upgrade the current system will be taken to members during 2011/12.

Section 2

Key Indicators

1. Executive summary
2. Key Indicators
3. Strategic Financial Planning
4. Financial Governance
5. Financial Control

Introduction

This section of the report includes analysis of key indicators of financial performance, benchmarked where this data is available. These indicators include:

- Out-turn against budget
- Working capital ratio
- Useable Reserves levels
- Long term borrowing levels
- Sickness absence levels

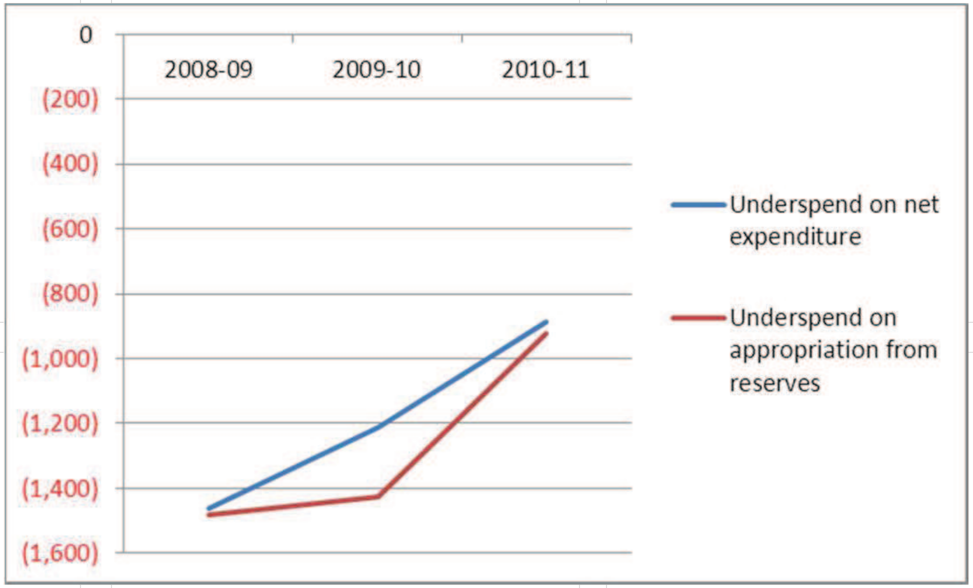
We have used the Audit Commission's nearest neighbours benchmarking group, which is the following authorities.

- Aylesbury Vale District Council
- East Hampshire District Council
- East Hertfordshire District Council
- Epping Forest District Council
- Horsham District Council
- Mid Sussex District Council
- Reigate & Banstead Borough Council
- Sevenoaks District Council
- South Oxfordshire District Council
- St Albans City District Council
- Surrey Heath Borough Council
- Test Valley Borough Council
- Three Rivers District Council
- Tonbridge & Mailing Borough Council
- Vale of White Horse District Council
- Waverley Borough Council

Overview of performance

<table>
<tr><th>Area of Focus</th><th>Summary observations</th><th>High level risk assessment</th></tr>
<tr><td>Performance Against Budget</td><td>

- The Council has a good track record in managing expenditure against budget, achieving net underspends in each of the last three years. This is highlighted in the graph below:

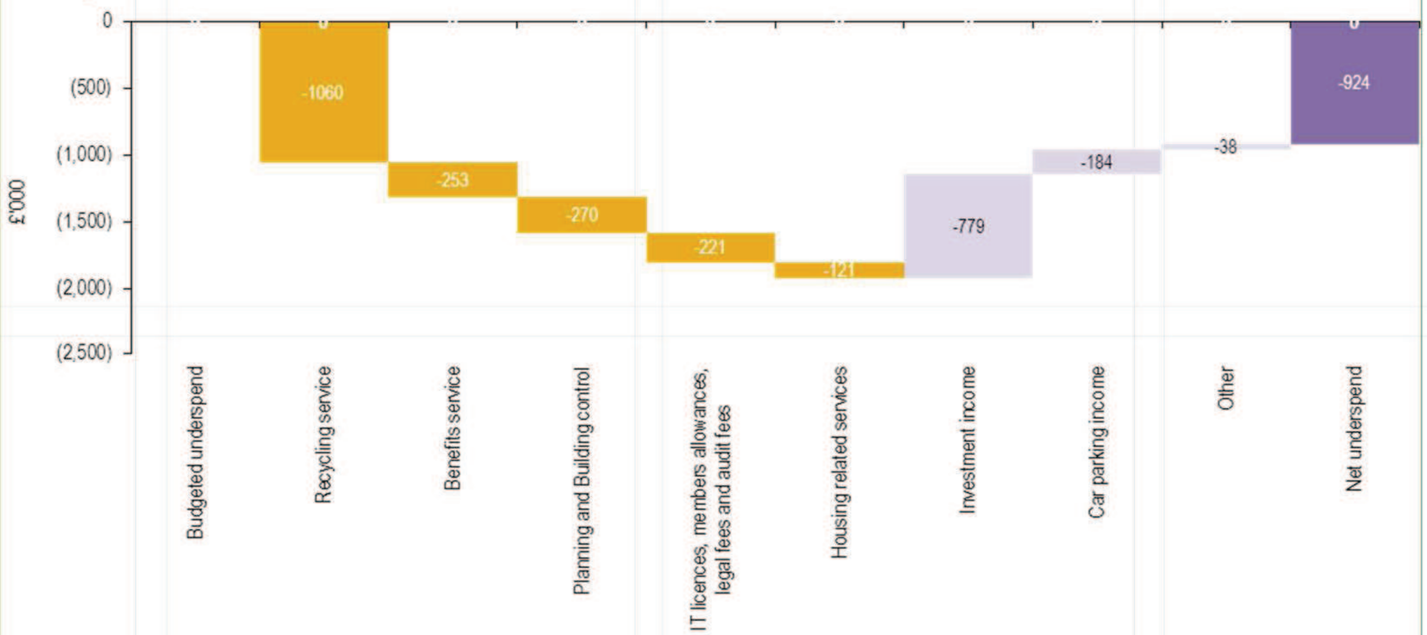


- Per the draft statement of accounts, this is considered to reflect "the Council's commitment to sound financial management and its prudent approach to funding." A report taken to Audit Committee in November 2010 suggested that the underspends tended to be the result of over cautious estimates on income, budgets over which managers have limited control.

</td><td>Green</td></tr>
</table>

Key:
- High risk area
- Potential risks and/or weaknesses in this area
- No causes for concern

Overview of performance

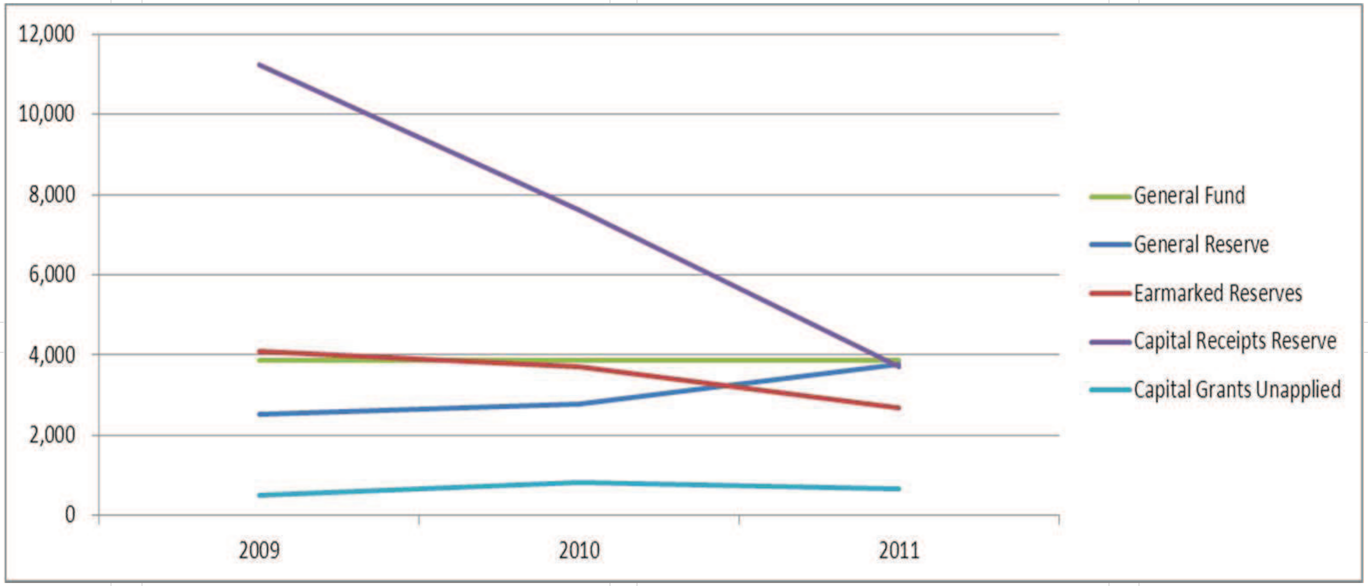
Area of Focus	Summary observations	High level risk assessment
Performance Against Budget (continued)	• The 2010/11 outturn is based on the amounts per the draft financial statements. A bridge graph highlighting the major differences is shown below:  • The most significant variances were around the costs of the recycling service and investment income received. These areas have also seen significant variances in previous years.	

Key:
- High risk area
- Potential risks and/or weaknesses in this area
- No causes for concern

Overview of performance

<table>
<tr><th>Area of Focus</th><th>Summary observations</th><th>High level risk assessment</th></tr>
<tr><td>Reserve Balances</td><td>

- The Council's usable reserves have reduced from £22,256k to £14,667k over the three most recent years. However, as the graph below shows, the key driver for this reduction is the planned use of the capital receipts reserve:



- The balance of the capital receipts reserve has fallen from £11,251k in 09/10 to £3,721k in 10/11, a drop of 67%. In 10/11, for example, £5,182k was used to fund total capital expenditure of £5,909k and in the current economic climate it is difficult to sell assets to provide additional funding, hence the rapidly reducing level of the reserve. As an example of this, receipts of £1.86m are anticipated from asset sales in 11/12, raising the potential requirement of borrowing.

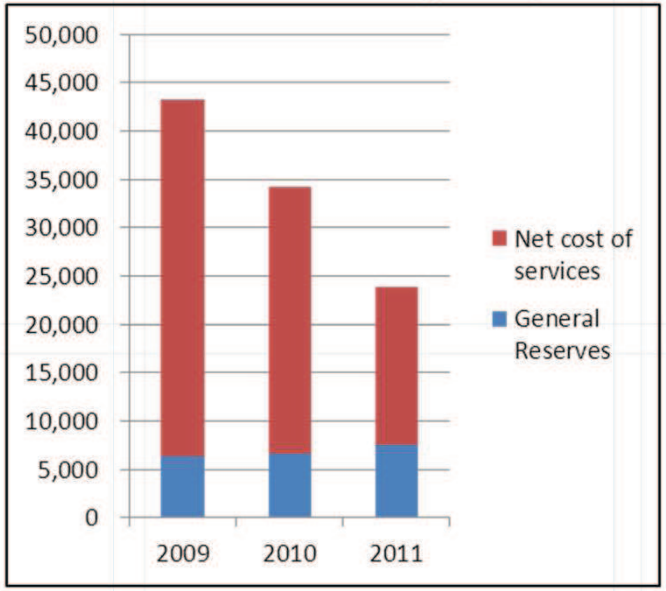
</td><td>Amber</td></tr>
</table>

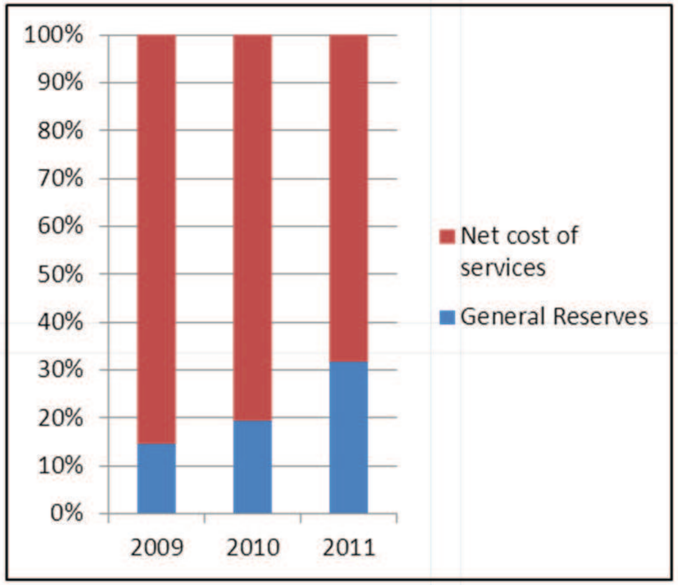
Key:
- High risk area
- Potential risks and/or weaknesses in this area
- No causes for concern

Overview of performance

<table>
<tr><th>Area of Focus</th><th>Summary observations</th><th>High level risk assessment</th></tr>
<tr><td>Reserve Balances (continued)</td><td>

• The graphs below show the level of general reserves against the net cost of services balance. The first graph shows this in actual terms, the second in percentage terms:



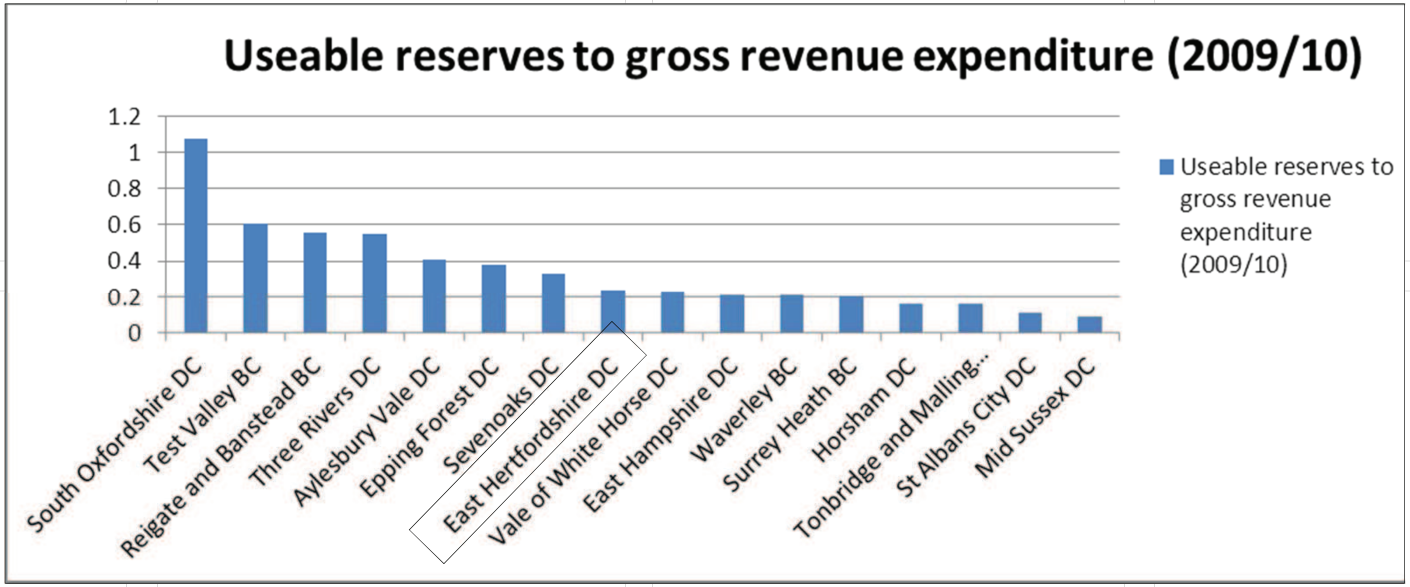


• This highlights that whilst the level of reserves has fallen over the previous three years, as a percentage of the net cost of services the level has actually risen. This evidences that the Council is maintaining reserves at a reasonable level.

</td><td></td></tr>
</table>

Key:
- High risk area
- Potential risks and/or weaknesses in this area
- No causes for concern

Overview of performance

Area of Focus	Summary observations	High level risk assessment
Reserve Balances (continued)	• The Audit Commission made comparative data available for 2009/10. This has been used to generate the graph below showing the ratio of usable reserves to gross revenue expenditure with a comparison against those authorities the Audit Commission considers to be 'nearest neighbours'.  • This shows the Council holds an average level of reserves compared to their 'nearest neighbours'.	

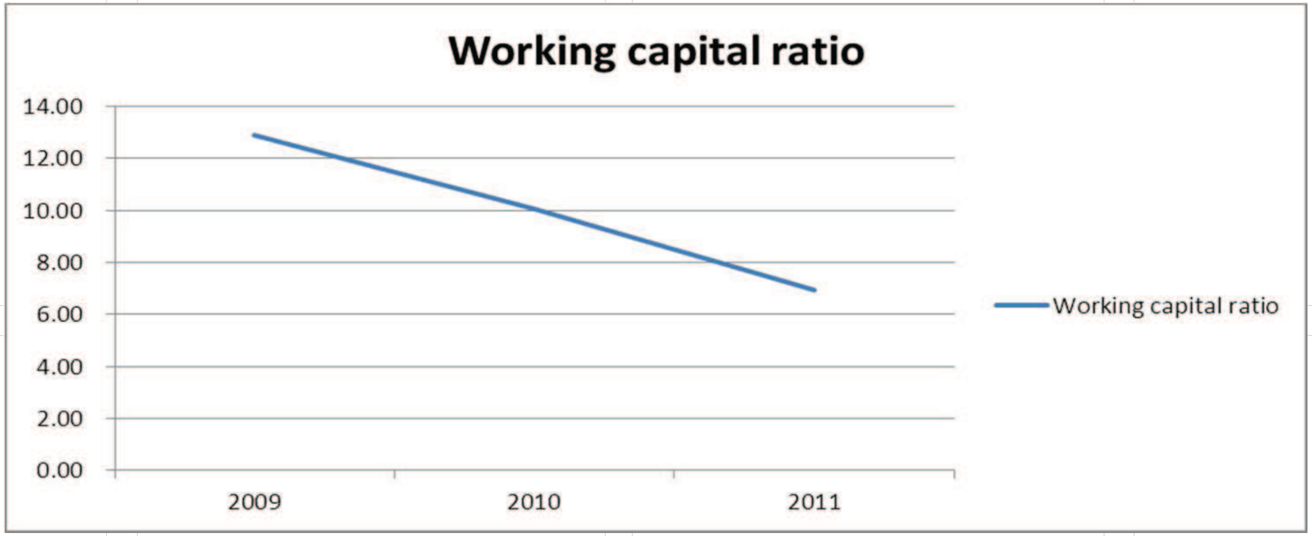
Key:
- High risk area
- Potential risks and/or weaknesses in this area
- No causes for concern

Overview of performance

Area of Focus	Summary observations	High level risk assessment
Reserve Balances (continued)	• It remains important, and is perhaps even more critical, to maintain appropriate levels of General Fund reserves during this period of fiscal constraint. Failure to do so will create cash flow pressures and may cause adverse publicity for the Council. This fact was recognised within the 'General Fund Revenue and Capital Out-turn 2010/11' report presented to the Executive in July 2011. In addition to stressing the budgetary pressures being faced, this highlighted that *"future Government decisions regarding top slicing the revenue support grant to fund the new homes bonus from 2013 and the potential financial impact of changes in funding arrangements for Council Tax benefits from 2013 may result in the need to call upon the General Reserve to support budgets in the medium term."* • The MTFP recognises the importance of maintaining sufficient balances to deal with unforeseen events and to cover the potential risk of not achieving required savings levels.	

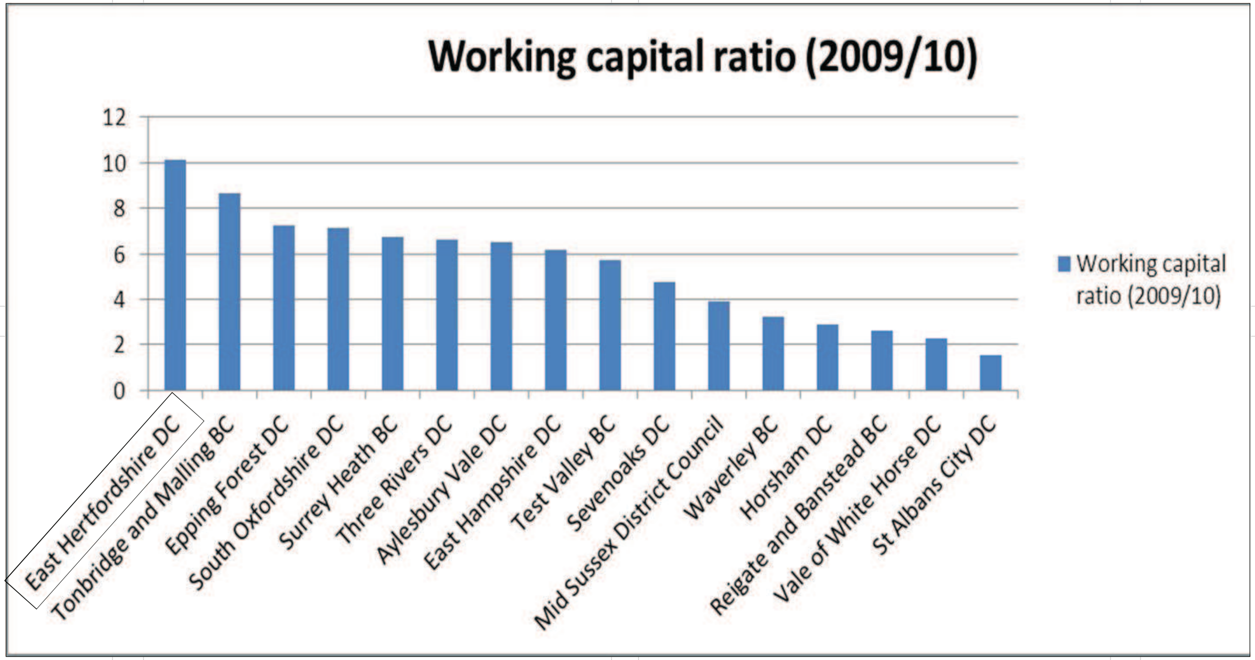
Key:
- High risk area
- Potential risks and/or weaknesses in this area
- No causes for concern

Overview of performance

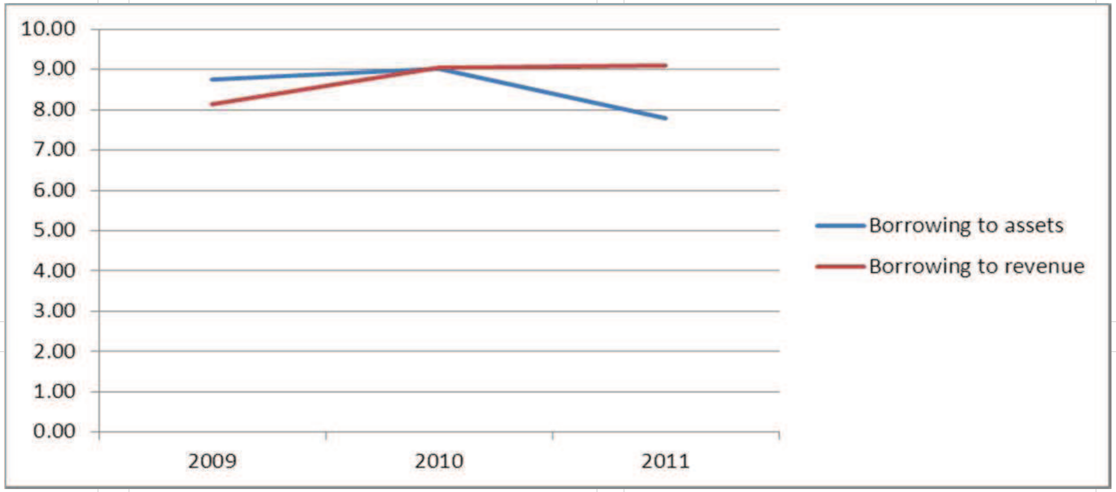
Area of Focus	Summary observations	High level risk assessment
Liquidity	• The working capital ratio indicates if an authority has enough current assets, or resources, to cover its immediate liabilities - i.e. those over the next twelve month period. As the graph below shows, the Council's working capital ratio has fallen over the three years 08/09 to 10/11.  • This indicates that the Council's liquidity is decreasing, although it should be noted that it remains at a very high level. A ratio of assets to liabilities of 2:1 is usually considered to be acceptable, whilst the Council currently have a ratio of just under 7:1. In general, a very high working capital ratio is not considered to be a good thing, as it tends to indicate that an authority is not investing its excess cash effectively. However, East Herts have invested the cash but, due to the nature of the investments, this remains reported as a current asset. Were these investments to be excluded from the calculation, the current working capital ratio would be 1.28:1 which would not be considered unreasonable.	Green

Key:
- High risk area
- Potential risks and/or weaknesses in this area
- No causes for concern

Overview of performance

Area of Focus	Summary observations	High level risk assessment
Liquidity (continued)	• As with usable reserves, the Audit Commission made comparative data available for 2009/10. This has been used to generate the graph below showing the working capital ratio with a comparison against those authorities the Audit Commission considers to be 'nearest neighbours'.  • The Council is maintaining a positive working capital ratio and looks to be in a strong position, as evidenced by the comparison above. However, it is clear that working capital will come under increasing pressure as a result of the Spending Review and will need to be carefully monitored.	

Overview of performance

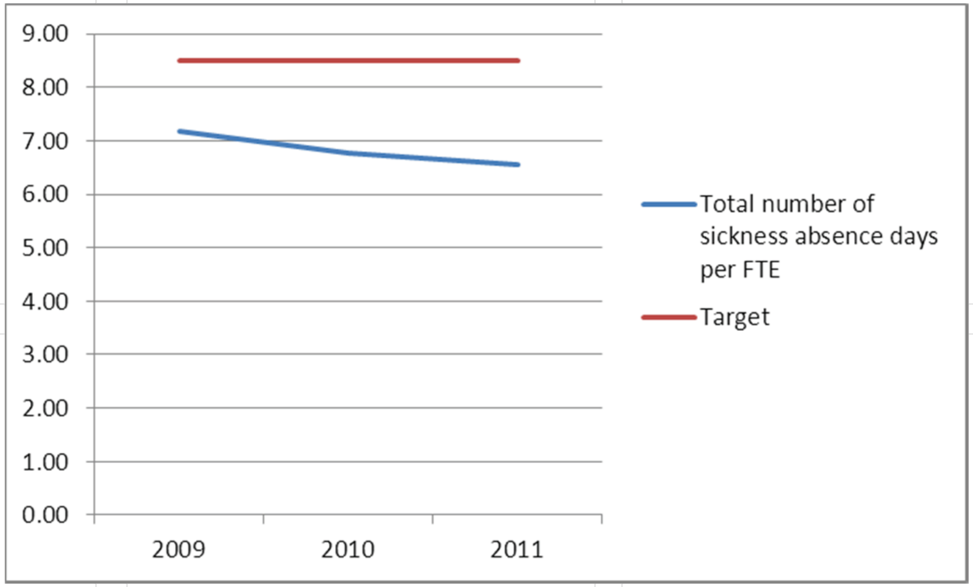
Area of Focus	Summary observations	High level risk assessment
Borrowing	• Current borrowing at the Council stands at just under £8m. This represents just under 8% of long term assets and just over 9% of revenue, as shown in the graph below:  • The current levels of borrowing indicate a reasonably resilient position for the Council , with the trends not highlighting any major risk factors. It is acknowledged that the Council has given consideration to repayment of this borrowing, but this is not possible due to both the size of the applicable penalty payments and also the need to reach agreement with other Councils. • Borrowing is an area that the Council will need to monitor going forward, particularly to fund the on-going capital programme. The level of the capital receipts reserve is reducing and with the difficulty of obtaining significant capital receipts, there may need to be additional borrowing going forward.	Green

Key:
- High risk area
- Potential risks and/or weaknesses in this area
- No causes for concern

Overview of performance

<table>
<tr><th>Area of Focus</th><th>Summary observations</th><th>High level risk assessment</th></tr>
<tr><td>Workforce</td><td>

- The Council's sickness absence levels have been showing a reducing trend over the past three years, with the estimated figure for 2010/11 down to just over 6.5 days. As the graph below shows, the Council are also consistently performing ahead of target.



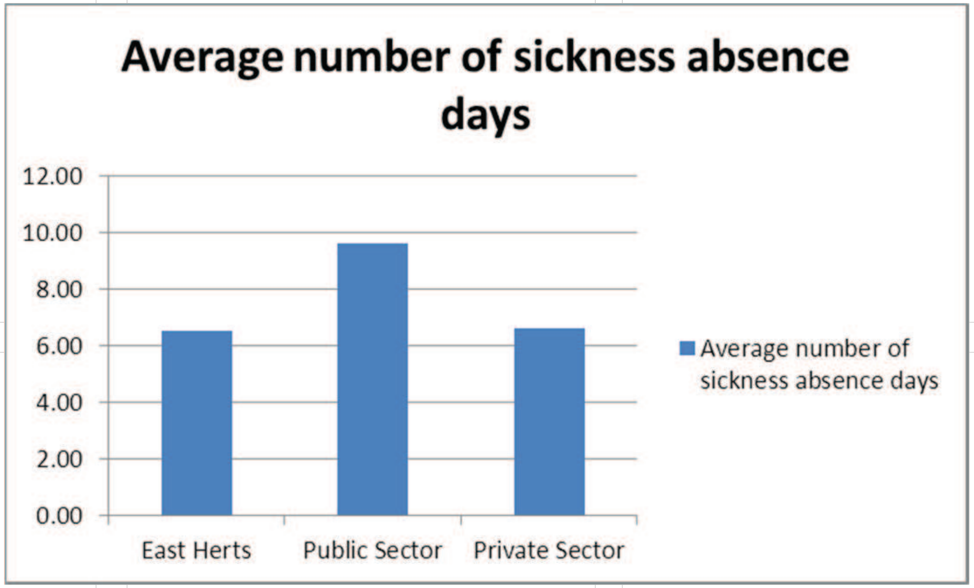
- The Council reviews absence levels as part of it's regular performance monitoring activity, and t will be important that they continue to carefully manage workforce issues when they arise and maintain a robust approach to sickness absence monitoring to maintain the improving trend.

</td><td>Green</td></tr>
</table>

Key:
- High risk area
- Potential risks and/or weaknesses in this area
- No causes for concern

Page 52

Overview of performance

Area of Focus	Summary observations	High level risk assessment
Workforce (continued)	• The graph below shows that performance at the Council reflects well against both public sector and private sector averages:  • Costs that accrue from sickness absence relate to the hiring of agency staff to cover staff gaps, or from holding a larger workforce complement than is desirable. Absence also damages service levels either through staff shortage or lack of continuity. Reducing absenteeism saves money, improves productivity and can have a positive customer benefit. Absence management will be a particular challenge for all authorities going forward, given the context of significant pressures on staff to deliver 'more for less'.	

Key:
- High risk area
- Potential risks and/or weaknesses in this area
- No causes for concern

Section 3

Strategic Financial Planning

1. Executive summary
2. Key Indicators
3. Strategic Financial Planning
4. Financial Governance
5. Financial Control

Key indicators of good Strategic Financial Planning

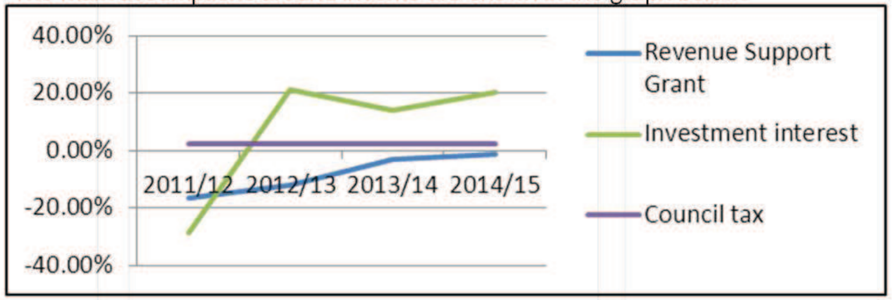
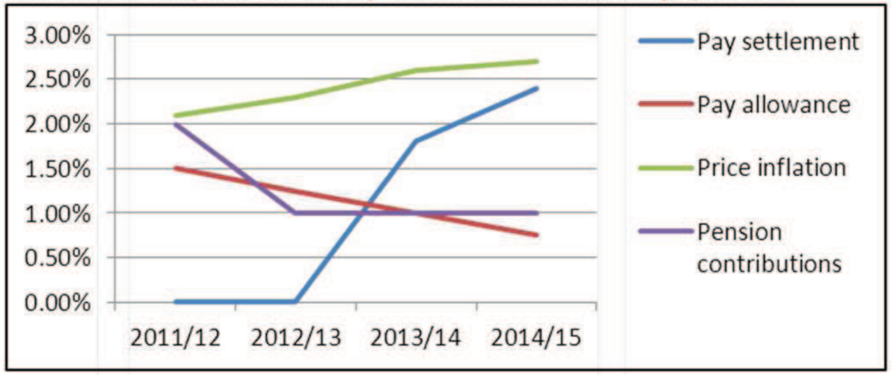
- Focus on achievement of corporate priorities is evident through the financial planning process. The MTFS focuses resources on priorities
- Service and financial planning processes are integrated.
- The MTFS includes outcome measures, scenario planning, benchmarking, resource planning and details on partnership working. Targets have been set for future periods in respect of reserve balances, prudential indicators etc
- Annual financial plans follow the longer term financial strategy
- There is regular review of the MTFS and the assumptions made within it. The Council responds to changing circumstances and manages its financial risks
- The Council has performed stress testing on its model using a range of economic assumptions including SR10
- The MTFS is linked to and is consistent with other key strategies, including workforce.
- KPIs can be derived for future periods from the information included within the MTFS
- Effective treasury management arrangements are in place.
- The council operates within an appropriate level of reserves and balances

Medium Term Financial Strategy

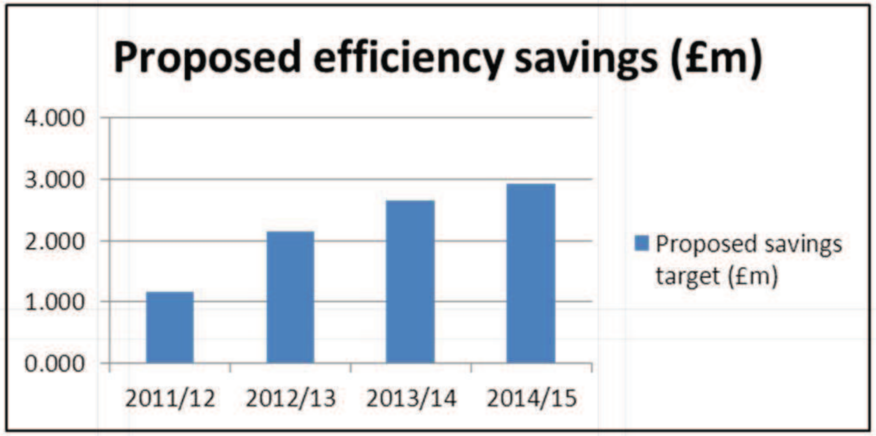
Area of Focus	Summary observations	High level risk assessment
Focus of the MTFP	• The Council have recognised that all policy objectives are subordinate to ensuring the sustainability of public finances. An updated Medium Term Financial Strategy (MTFS) has been prepared that runs to 2014/15. The strategy emphasises the need to address uncertainty in the planning process. As a response to this, savings options were developed ahead of the sums needed to balance the MTFP based on central planning assumptions. • The MTFS is set up so to establish the Council's strategy for the next four years and to set out the financial challenges that the Council will face over this medium term. It is clearly recognised this continues to be a period of uncertainty across local government as the Government consider and review resource needs and demands within the framework of the Comprehensive Spending Review and in light of the economic climate and the state of public finances. • Prior to the announcement of the 2011/12 settlement by CLG, the Council developed plans based on expected reductions in the formula grant and a freeze on Council Tax. By anticipating the potential reductions at an early stage the Council was able to prepare proposals for significant cost reductions. • Review of the MTFP makes it clear that the plan is applying resources so as to achieve the Council's priorities. • There are also a clear set of objectives in place to support both the MTFS and the MTFP. Review of the list of objectives confirms that they are in line with expectations. Examples include: ➢ Ensuring the Council is well placed to meet uncertainty about the level of funding ➢ Annual review of the Council's resources to enable redirection of funding to higher priority areas ➢ Ensure funding is available for priority service improvements ➢ To manage risks including keeping adequate reserves ➢ To achieve value for money from all spending • Key to the MTFS is also how the Council manage their capital going forward. As with the MTFS, the capital programme is focussed on the achievement of the Council's priorities. All proposed schemes are scrutinised in detail by the Corporate Management Team to ensure that projects are in line with these priorities and that all projects are phased appropriately and in line with available resources. • It is intended that a significant proportion of the proposed programme will be funded from available capital receipts. This could prove challenging given the current economic outlook. In addition to this, there may be the requirement for the Council to undertake borrowing in the medium term. The report on the capital programme taken to the Executive acknowledges the potential risks around the funding of the plan and highlights the need for both prudence and on-going monitoring.	Green

Key:
- High risk area
- Potential risks and/or weaknesses in this area
- No causes for concern

Medium Term Financial Strategy

Area of Focus	Summary observations	High level risk assessment
Adequacy of planning assumptions	• The MTFP is monitored on an on-going basis by senior officers and updates are required to be taken to the Executive for any material changes. In particular, this should ensure that responses to the outcome of the next finance settlement and any emerging proposals from the Local Government Resource Review are highlighted. • The main assumptions around income are shown in the graph below:  • This highlights the large anticipated drops in the Revenue Support Grant, a stable Council Tax increase met by the government grant and a fluctuating expectation for investment income based on expected interest rate movements. • The main assumptions around expenditure are shown in the graph below:  • This shows that expenditure increases are expected and highlights the challenge faced by the Council when considering the income expectations shown on the previous page.	Amber

Medium Term Financial Strategy

Area of Focus	Summary observations	High level risk assessment
Adequacy of planning assumptions (continued)	• Part of dealing with the cost pressures faced by the Council is the achievement of savings targets. These savings are seen as being of vital importance as the Council wants to maintain a strong level of general balances. In terms of the savings required, the Council is felt to be in a strong position given the significant progress made with the 11/12 savings package. The proposed savings targets are shown below:  • As this shows, the greater the level of recurring savings that can be found, the less the impact on subsequent years. • Clearly, all of these assumptions feed into the General Fund position. When setting these estimates, the Section 151 Officer is required to report on the adequacy of reserves and the robustness of estimates. A detailed risk assessment was prepared which concluded that the estimates were sufficiently robust. • It has been identified that no specific scenario planning took place. Essentially, senior officers took a view on expected grant levels, leading to a number of assumptions that were subjected to a risk assessment. Going forward, the Council could consider undertaking detailed scenario planning and sensitivity analysis to help support their planning. For example, there remains significant uncertainty in the economy over inflation. The Council should therefore ensure that their forecasts are carefully monitored and sensitivity analysis undertaken to ensure the on-going accuracy of assumptions. • Benchmarking was completed to some extent through a reserves benchmarking exercise. The Council could consider expanding this to incorporate other areas where they feel that similarities with other Councils exist.	

Key:
- High risk area
- Potential risks and/or weaknesses in this area
- No causes for concern

Medium Term Financial Strategy

Area of Focus	Summary observations	High level risk assessment
Scope of the MTFP and links to annual planning	• The Council's current MTFP covers the period up to 2014/15. and recognises that public services are being faced with meeting unprecedented challenges in how Councils are run and the services that they are able to deliver. • The Comprehensive Spending Review was published in October 2010. This included spending cuts for the Department for Communities and Local Government, with reductions of 27% being front loaded to 2011/12 and 2012/13. The Local Government Finance Settlement was announced in December 2010 covering a two year period. As a result of this, East Herts saw a reduction in their formula grant for 11/12 of £1,207k (16.6%) and a further reduction of £731k (12.1%). Future years will need to be reviewed as there is increased clarity over central government funding. • The Annual Budget and MTFP presented to the Executive in February 2011 covers savings and growth targets for the 11/12 budget process. As the plan notes, the Council made significant progress against saving requirements by developing a strong savings package for 11/12. This process was part of the MTFS presented to the Executive in September 2010 and essentially attempted to anticipate the results of the CSR. • The Council always aims to set a balanced budget. Based on the changes to the settlement position, the savings proposals were revisited and additional savings used to bridge the gap. This meant that there were reductions in certain areas of spend, including some priorities, but ultimately that no priorities were changed. • Savings proposals are identified by officers and are then taken to Scrutiny, a meeting that all members are able to attend. The Council provide their members with a long list of potential savings and set out the required savings target. The members are then responsible for selecting those savings that they feel are the most appropriate. Clearly, this means that things can be saved, but at the expense of others. • The Council should consider adopting a strategic Zero Based Budgeting (ZBB) approach to financial planning. ZBB is an approach to budgeting that starts from the premise that no costs or activities should be factored into the plans for the coming budget period, just because they figured in the costs or activities for the current or previous periods. Rather, everything that is to be included in the budget must be considered and justified. By adopting this approach the Council will be able to prioritise and rank services, so that all financial planning decisions can be made in a fully informed and transparent way. • The budget for 2011/12 was approved by the Executive in February 2011. The report supporting this clearly links back to the MTFS set in September 2010 and the savings proposals agreed at the November 2010 Executive. • There is evidence that both senior officers and members debated and challenged budgets and savings across all services. .	Green

Key:
- High risk area
- Potential risks and/or weaknesses in this area
- No causes for concern

Medium Term Financial Strategy

Area	Summary observations	High level risk assessment
Review processes	• The Council have a clear process in place for the preparation of the MTFS through to the final budget. • In September 2010 the detailed MTFS was taken to the Executive. This followed detailed review of both the strategy and the savings proposals by the Scrutiny committees. The MTFS supports the planning process and helps to identify the resource issues and principles that will shape annual budget development. • The review process highlighted the Council's response to the economic downturn. They recognised potential impacts on the MTFP and senior officers then identified and took potential savings to Scrutiny meetings to enable Members to have a clearer understanding of potential options. • In preparing the MTFS, senior officers take account of all available information sources to produce a financial forecast for the medium term. As part of this process, the level of savings required is identified. A timetable is then put in place for identifying these savings. This process involves Members, key finance staff, Portfolio Holders, Heads of Service and senior management. In addition to this, the Council have an established number of key stakeholders with whom consultation takes place. • Following the MTFS in September 2010, the strategy was re-considered and updated where necessary as part of the 11/12 budget setting report that went to Scrutiny and Executive in January and December respectively. • Clearly, with significant saving requirements in place, there are inherent risks within the plan. Officers are clearly aware of this, and there are significant monitoring arrangements in place, including monthly corporate healthcheck reports going to both Scrutiny and the Executive.	Green

Key:
- High risk area
- Potential risks and/or weaknesses in this area
- No causes for concern

Medium Term Financial Strategy

Area	Summary observations	High level risk assessment
Responsiveness of the Plan	• It is clear from review of minutes and reports around the finances of the Council that the MTFP is being monitored closely and any changes being taken into account. If there are any material changes required, for example emerging proposals or government announcements around the next finance settlement, then the plan would be revised and presented to the Members. • The MTFP is updated each year as part of the annual planning cycle. All changes are monitored on an on-going basis. The MTFP presented to the Executive in September 2010 was updated to reflect all government announcements on public finances, as well as trying to anticipate potential announcements that may be still to come. • As part of the MTFP process, the Council identify a number of potential risks, considering the mitigation put in place as well as the likelihood and potential impact. It is clear from the report that there is the ability to update the MTFP if and when any risks materialise. • It is clear that budgetary pressures could arise due to a number of risk based factors and that a relatively small change to interest rates, inflation levels, pay awards, government funding or demand could result in significant impacts on Council Tax levels and/or the need to identify further savings. • The Council continues to monitor the MTFP during its delivery and the outcome of the Government's funding settlement for the final two years of the plan. • Ultimately, it is felt that all savings included within the plan should be achievable. However, the achievement of savings is considered as part of the risk assessment of reserve balances. • The achievement of savings are not monitored on a line by line basis. Ultimately, departments have set budgets that they need to achieve, included in which are savings. Performance is monitored against the overall budget rather than looking at the specific saving that had been identified. There is the opportunity here for the Council to consider how savings are monitored. More detailed monitoring would better help to identify performance and potentially identify savings being made in different areas to those anticipated.	Amber

Key:
- High risk area
- Potential risks and/or weaknesses in this area
- No causes for concern

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Section 4

Financial Governance

1. Executive summary
2. Key Indicators
3. Strategic Financial Planning
4. Financial Governance
5. Financial Control

Key indicators of effective Financial Governance	There is a clear understanding of the financial environment the Council is operating within: • Regular reporting to Members. Reports include detail of action planning and variance analysis etc • Actions have been taken to address key risk areas • The CFO is a key member of the leadership team • Officers and managers across the council understand the financial implications of current and alternative policies, programmes and activities • The leadership ensure appropriate financial skills are in place across all levels of the organisation • The leadership foster an open environment of open challenge to financial assumptions and performance There is engagement with stakeholders including budget consultations There are comprehensive policies and procedures in place for Members, Officers and budget holders which clearly outline responsibilities. Number of internal and external recommendations overdue for implementation Committees and Cabinet regularly review performance and it is subject to appropriate levels of scrutiny There are effective recovery plans in place (if required)

Understanding and engagement

Area of focus	Summary observations	High level risk assessment
Understanding the Financial Environment The controls assurance performance monitoring focuses on financial management, governance and risk management	• Once a budget is in place, it is the responsibility of the Executive to implement it. As part of this process, the Executive receive monthly corporate healthcheck monitoring reports to highlight performance. • It is clear that the Council believe that financial skills should form part of general management skills across services. The Corporate Healthcheck process has put disciplines in place to ensure that a clear priority is in place for finance. Finance has seen its profile raised significantly and members of the finance team now get much closer to Heads of Service than had previously been the case. Key Performance Indicators are also communicated every month as part of the corporate healthcheck. • Each month, as part of the healthcheck process, reports are sent out to budget holders. There are then a series of meetings between budget holders and accounts officers to identify and discuss issues. These meeting ensure that there is an early opportunity to highlight any possible pressures and also potential solutions. There are also monthly healthcheck meetings attended by a combination of accountancy officers, directors, heads of service and budget managers. There is a clear process for discussing issues and spending officers are increasingly good at liaising with their relevant accountancy contact. • Budget holders also recognise that re-investment is driven by the Council's priorities and the clear focus of the Council. Budget managers are provided with training to ensure that there is a clear understanding of responsibilities and the management development programme is in place to try and identify any potential training needs. In addition to this, the accountancy team are able to provide training where required. Emphasis is given to the fact that all monitoring needs to be both timely and accurate. • The senior management team are involved in the monthly healthcheck meetings so have close involvement with finance. Further to this, they have editorial rights over all reports going to members. All reports are required to assess any financial implications and this needs to be given a finance sign off before it can go to Committee. • The finance reports produced for the Executive provide a detailed narrative regarding the performance of the Council. The reports include a detailed breakdown of variances to budget including comments against each.	Green

Key:
- High risk area
- Potential risks and/or weaknesses in this area
- No causes for concern

Understanding and engagement

Area of focus	Summary observations	High level risk assessment
Executive and Member Engagement	• Review of the budget setting process indicates that there is considerable engagement in the process both from senior officers and from members. • As noted previously, there was a great deal of consultation around the proposed savings plans. This involved both Scrutiny and the Executive, enabling all Members to comment on the plans and process. • A detailed budget consultation document was prepared highlighting consultation that had been performed. This included: ➢ Online budget simulator on the Council website available to all members of the public ➢ Online budget simulator sent out to business contacts ➢ Focus groups ➢ Online consultation for all Councillors • This consultation covered the following specific areas: ➢ Police Community Support Officers ➢ Community Grants and Funding ➢ Public Consultation / Public Meetings and Council Meetings ➢ Public Toilets ➢ Homelessness Help ➢ Support for museums, the arts and other cultural activities • All departments receive monthly budget monitoring reports. These are reviewed by the budget holders and regular meetings are held with the Finance Team to discuss any issues. • Training is being focussed on new members to ensure that they are up to spend with financial areas such as the healthcheck process and also the budget setting cycle. In addition to this, members of the Scrutiny Committee have received specific financial training and members of the Audit Committee receive training on different areas as part of the agenda at each and every meeting.	Green

Key:
- High risk area
- Potential risks and/or weaknesses in this area
- No causes for concern

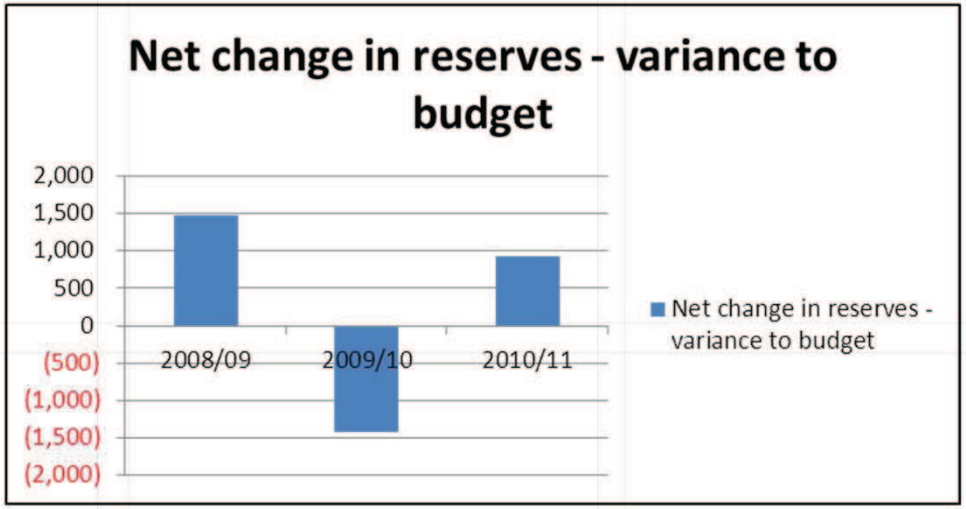
Monitoring and review

Area	Summary observations	High level risk assessment

Review of accuracy of Committee reporting	• The Executive receive monthly finance (corporate healthcheck) monitoring reports. Review of example reports have found them to include detailed financial information alongside explanations for variances. Each report is split into the following sections:
	  • Revenue financial summary
	  • Financial analysis and performance analysis (broken down along the lines of Council priorities)
	  • Capital financial summary
	  • Appendix - full set of performance indicators
	  • Appendix - detailed information on salaries
	  • Appendix - detailed information on capital
	  • Appendix - explanations on variances reported in previous months
	  • Appendix - summary of Executive actions in the year
	• The Council have recognised the importance of a clear understanding of financial information. Review of all reports presented to Committee identifies that financial implications must be considered in all cases.
		● Green

Key:
● High risk area
● Potential risks and/or weaknesses in this area
● No causes for concern

Monitoring and review

Area	Summary observations	High level risk assessment
Performance Management of Budgets	• Performance against the budgeted change in reserves has been highlighted within the graph below. This shows that the Council have regularly performed considerably outside of expectations.  • As a result of the significant variances to budget a report was prepared for the Audit Committee. This noted that managers are being encouraged to be more balanced in their reporting on the budget. In addition, it is acknowledged that the profiling of income budgets could be given more attention at the start of the year. • The statement of accounts includes detail on performance against budget and provides explanations for all significant movements. • The monthly finance reports presented to the Executive include significant detail of actual and planned performance alongside the subsequent variances. The narrative included within the report provides details of the causes of the variance along with planned corrective action.	Amber

Key:
- High risk area
- Potential risks and/or weaknesses in this area
- No causes for concern

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Section 5

Financial Control

1. Executive summary
2. Key Indicators
3. Strategic Financial Planning
4. Financial Governance
5. Financial Control

Key indicators of Effective Financial Control

Budget setting and budget monitoring

- Budgets are robust and prepared in a timely fashion and the council has a good track record of operating within its budget
- Budgets are monitored at an officer, member and Cabinet level and officers are held accountable for budgetary performance
- Financial forecasting is well-developed and forecasts are subject to regular review, including trend analysis, benchmarking of unit costs, risk and sensitivity analysis.
- There is particular focus on monitoring income related budgets

The capacity and capability of the Finance Department and Service Departments are fit for purpose

Financial Systems

- Key financial systems have received satisfactory reports from internal and external audit
- Financial systems are adequate for future needs, for example commitment accounting functionality is available

Internal Control

- Strength of internal control arrangements - there is an effective internal audit which has the proper profile within the organisation. Agreed Internal audit recommendations are routinely implemented in a timely manner
- There is a an assurance framework in place which is used effectively by the Council and is how business risks are managed and controlled.
- The Annual Governance Statement gives a true reflection of the organisation.

Internal arrangements

Area of focus	Summary observations	High level risk assessment
Performance against Savings Plans	• At the Scrutiny meeting in August 2010, the members were presented with a range of savings options proposals to incorporate into the 2011/12 budget process and the MTFS. • The Council has attempted to take savings as early as possible to help them best manage the process. • As part of the savings proposals, members were provided with a breakdown of the available savings and the savings requirement to enable them to focus on their preferred areas and so to maintain the key priorities of the Council. All savings proposals were posted onto the members intranet. This gave all members an opportunity to question or comment on the proposals. The relevant Head of Service was then required to respond to member queries. • The Council have clearly been proactive in highlighting savings required and in providing options for the members to discuss. • Overall performance against budget confirms that the Council has a good track record of delivering savings and finding efficiencies. • All savings are required to show the link to objectives and also the impact. A risk assessment about the ability to deliver is also required. The Council could consider Red/Amber/Green (RAG) rating their savings proposals both in terms of deliverability and public acceptability. This would help to provide a greater level of clarity. • Savings are monitored as part of the monthly healthcheck process. The budgets at the start of the year take on board the planned savings and performance is then measured against the base budgets. Consideration should be given to monitoring the achievement of savings on a line by line basis. This separate monitoring process would help to scrutinise the delivery of savings and it is considered good practice to separately monitor budgets to savings.	Amber
Finance Department resourcing and qualifications / experience	• The current staffing level is 9.5 FTEs across Accountancy. This includes the Head of Financial Support Services who holds responsibility for Accountancy at the Council. Of these, two are fully qualified. Of the remaining members of the team, one is a CIPFA trainee and 2 are Accounting Technicians. • The Finance Team at the Council has been in place for a number of years and contains staff very experienced within their roles. The team is expected to stay in its current form for the time being, although there is the potential for a move to shared services with Stevenage Borough Council and North Herts District Council in areas such as the payment of invoices and the sundry debtor functions. • Discussions with senior officers have highlighted the importance of training. Clearly, all qualified accountants are required to complete CPD training on an on-going basis. There are on-going training requirements in place through management development arrangements and staff regularly attend CIPFA courses. In addition to this, where there are any significant issues the authority will bring in an external provider. An example of this is the IFRS restatement process where opportunities were taken to transfer knowledge across to the authority. It is considered important to keep the wider team well informed and up to speed on issues.	Green

Key:
- High risk area
- Potential risks and/or weaknesses in this area
- No causes for concern

Internal and external assurances

Area of focus	Summary observations	High level risk assessment
Summary of key financial accounting systems	• The most recent Internal Audit report on the main accounting and budgetary control system was produced as a final report dated 23 March 2011. This report assigned 'Substantial Assurance' to the systems and procedures which underpin the Main Accounting System process. This does not highlight any significant areas of concern. • Currently the Council are using Powersolve as their accounting system. The system is dated, not user friendly and consequently not widely used beyond the finance team. This system is provided by Civica and discussions are currently being undertaken about an upgrade to the system to the most up to date version. Potentially this could happen any time from April 2012, and a move to an updated version would enhance the support that Civica are able to provide. • Given the age and small user base of the current system, the Council needs to ensure that it implements an upgrade/migration to a new system in a timely manner.	Amber

Internal audit arrangements including compliance with CIPFA Code of Practice for Internal Audit	• For the year 2010/11, Internal Audit was an in-house function at the Council. Performance of the function has been strong over the past few years and the level of plan completion was good.
	• The Internal Audit report of 2010/11 stated that "the overall level of assurance awarded for systems reviewed is 'good', meaning that all major controls are in place but some minor controls may be absent, performance indicators are good and no errors were detected."
	• Annual reviews of the Internal Audit function at East Herts have not highlighted any significant issues in relation to the CIPFA Code of Practice for Internal Audit. It will be vital that this is continued with the introduction of the Shared Internal Audit Service (SIAS).
	• SIAS has been formed amongst the following bodies:
	  • Stevenage Borough Council
	  • East Herts District Council
	  • Hertsmere Borough Council
	  • North Herts District Council
	  • Welwyn Hatfield Borough Council
	  • Hertfordshire County Council
	• The shared service is anticipated to reduce the daily rate of audit from £271 to £240.
	• It is anticipated that that sharing services will increase resilience in internal audit and give a greater economy of scale to allow for access to specialist audit skills. However, to all members of the shared service, it is vital that quality is high and that each member is provided with sufficient levels of IA work and assurance. The Council must ensure that suitable monitoring arrangements are put in place to maintain a high standard of Internal Audit support.
		Green

Key:
- High risk area
- Potential risks and/or weaknesses in this area
- No causes for concern

Internal and external assurances

Area of focus	Summary observations	High level risk assessment
External audit arrangements and programme of activities	• The most recent VfM conclusion confirmed that the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010. • Work around the VfM opinion over previous years has also highlighted improvements in performance across the Council. • The Council has always included management responses to recommendations raised in previous audit reports and have made good progress in implementing these recommendations.	Green

Key:
- High risk area
- Potential risks and/or weaknesses in this area
- No causes for concern

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East Hertfordshire District Council

Annual Report to Those Charged With Governance (ISA 260)

September 2011

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1. Executive summary

Purpose of this report

This report has been prepared for the benefit of discussion between Grant Thornton UK LLP and the Audit Committee of East Hertfordshire District Council (the Council). The purpose of this report is to highlight the key issues arising from the Council's financial statements for the year ending 31 March 2011.

This report meets the mandatory requirements of International Standard on Auditing 260 (ISA 260) to report the outcome of the audit to 'those charged with governance', designated as the Audit Committee. The requirements of ISA 260, and how we have discharged them, are set out in more detail at Appendix A.

The Council is responsible for the preparation of financial statements which record its financial position as at 31 March 2011, and its income and expenditure for the year then ended. We are responsible for undertaking an audit and reporting whether, in our opinion, the Council's financial statements present a true and fair view of the financial position.

Under the Audit Commission's Code of Audit Practice we are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Audit conclusions

Financial statements opinion

We were presented with draft financial statements on 29 June 2011, in advance of the 30 June 2011 deadline. The supporting working papers were of a good standard and the financial statements have been compiled in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the Code), based on International Financial Reporting Standards (IFRS).

Based on our work to date, a number of adjustments have been identified to the financial statements, the most significant being:

- Additional disclosure was required to provide context for the impairment charge against Hertford Theatre in the year.
- Within the short term investments held by the Fund Managers, £1,047k has been identified as cash on 31 March 2011. This has been reclassified within current assets to cash and cash equivalents.

We identified no other adjustments that impact on the Council's income and expenditure position. Further adjustments noted on the balance sheet were largely of a presentational nature only and had no overall net effect on the Council's reported assets and liabilities.

The key messages arising from our audit of the Council's financial statements are:

- The review of revaluations identified that significant capital investment of £947k in the Hertford Theatre had not led to an increase in capital value, rather there was a £4.2m impairment charge owing to changes in valuation methodology required by the move to IFRS, with the updated carrying value of £293k being based upon independent income projections from ticket sales. When approving the capital investment, the Council considered both the social and economic benefits of the scheme and the direct financial benefits from the projected reduction in annual operating subsidy equating to approximately £740k over the next ten years. Sensitivity analysis as part of the business case indicated a 12 to 16 year breakeven period based on NPV. The reduction of the subsidy has a long term revenue benefit to the Council, but that revenue benefit is necessarily excluded from the carrying value of the asset under the existing use methodology.

We anticipate providing an unqualified opinion on the Council's financial statements, following approval by the Audit Committee on 21 September 2011.

Further details of the outcome of the financial statements audit are given in section 2.

Value for Money Conclusion

In providing the opinion on the financial statements we are required to reach a conclusion on the adequacy of the Council's arrangements for ensuring economy, efficiency and effectiveness in its use of resources (the Value for Money Conclusion).

We are pleased to report that, based on our review of the Council's arrangements, we propose to give an unqualified conclusion.

Further details of the outcome of our value for money review are given in section 3.

The way forward

Matters arising from the financial statements audit have been discussed with the Director of Internal Services. We have made a small number of recommendations, which are set out in the action plan at Appendix C. This has been discussed and agreed with the Director of Internal Services and the senior finance team.

Use of this report

This report has been prepared solely for use by the Council to discharge our responsibilities under ISA 260, and should not be used for any other purpose. We assume no responsibility to any other person. This report should be read in conjunction with the Statement of Responsibilities and the Council's Letter of Representation.

Acknowledgements

We would like record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP

21 September 2011

2. Key audit issues

Matters identified at the planning stage

We have not altered or changed our planned approach to the audit which was communicated to you in our Audit and Approach Memorandum dated June 2011.

Our response to the matters identified at the planning stage are detailed below.

Issue	Audit areas affected	Work completed	Assurances gained
Accounting under IFRS	All areas of the financial statements	• A specific review of the Council's preparedness for IFRS has been completed. The results of this review have been reported to the senior finance team and the Audit Committee in a Red/Amber/Green (RAG) format. • We have maintained on-going liaison with the senior finance team regarding emerging IFRS issues and guidance and have been provided with support for any proposed changes to accounting treatment being considered under IFRS • Our substantive audit procedures have focused on the high risk areas identified as a result of the transition to IFRS, in particular property, plant and equipment (PPE)	• The review of the Council's preparedness supported an overall 'green' rating with 'amber' ratings noted for some disclosure notes. • Opening balances and the restated balance sheet have been reviewed with no significant errors identified within restatement workings • Substantive audit procedures undertaken in relation to PPE balances did not identify any IFRS related misstatements. As part of the review process, a number of disclosure amendments were required to ensure full compliance with the Code and IFRS.

Issue	Audit areas affected	Work completed	Assurances gained
Revaluation of fixed assets	**Property, plant and equipment**	• We confirmed that controls relating to PPE activity and valuation are implemented and are operating effectively • We reviewed information recorded within the Council's asset record system and made direct enquiries of the Valuer to determine the appropriateness of assumptions applied as part of the adopted valuation methodology as well as the completeness and accuracy of any information used to perform valuation calculations, including non-financial information • We reviewed the approach to valuation activity undertaken during the year to ensure that it had been conducted and recorded in the financial statements in accordance with IAS 16, Property, Plant and Equipment	• We have reviewed the approach used by the Council in terms of the valuations performed and are satisfied that the procedures in place are sound and, where applicable, areas of judgement which impact on the value of assets have been followed appropriately. • We gained assurance that the overall valuation had been completed in accordance with IAS 16 and that the findings of the valuer had been accurately reflected in the financial statements.
Financial Performance Pressures	**All areas of the financial statements**	• We have maintained on-going liaison with the Finance Team regarding any emerging issues. • We have reviewed the Executive and Audit Committee minutes and papers to identify and understand the key pressures that the Council is facing in meeting the agreed budget.	• We monitored the financial position of the Council as well as reviewing the use of reserves during the year. This has not identified any significant issues. • We carried out a specific review on the Council's financial resilience in light of SR10. The key findings from this report are included within section 3 of this report.
C3W project	**All areas of the financial statements**	• We have continued to monitor progress with the C3W project.	• No significant issues have been identified that impact on the financial statements audit.

Status of the audit

We carried out our audit in accordance with the proposed timetable and deadlines communicated to you in our Audit Approach Memorandum. Our audit is substantially complete although we are finalising our procedures in the following areas:

- Resolution of final minor queries;
- review of the final version of the financial statements;
- obtaining and reviewing the Council's letter of representation; and
- updating our post balance sheet events review, to the date of signing the accounts

We anticipate providing an unqualified opinion on the Council's financial statements, following approval by the Audit Committee on 21 September 2011.

In addition, finance staff dealt with our audit queries efficiently and provided timely responses to requests for additional information.

A number of issues arose during the course of the audit, which whilst not considered to represent a material unadjusted impact to the reported financial performance, should be considered by the Audit Committee. These are set out in the following paragraphs. Where appropriate, we have made recommendations for improvement, as set out in the agreed action plan at Appendix C.

Matters arising from the financial statements audit

We are pleased to report that the financial statements were accompanied by good working papers. The Council should ensure that this standard is maintained, in particular where critical judgements and estimates have been applied.

Asset valuations

The move to IFRS has highlighted some significant changes in valuations owing to the requirement to use specific valuation methodologies. The most significant of these is the £4.2m impairment to the Hertford Theatre. Previously, the theatre had been valued under the Depreciated Replacement Cost valuation method. As a requirement of the move to IFRS, the asset was revalued using the Existing Use Value method. This considers income and expenditure expectations for the next ten years, alongside comparisons with other theatres on a 'price per seat' basis. This valued the theatre at £293k, an impairment of £4.2m. This is despite investment in the asset of £947k in the year.

When approving the capital investment, the Council considered both the social and economic benefits of the scheme and the direct financial benefits from the projected reduction in annual operating subsidy equating to approximately £740k over the next ten years. Sensitivity analysis as part of the business case indicated a 12 to 16 year breakeven period based on NPV. The reduction of the subsidy has a long term revenue benefit to the Council, but that revenue benefit is necessarily excluded from the carrying value of the asset under the existing use methodology.

This highlights the need to identify the impact of proposed capital investment on an assets value as part of the business case for authorising the spend. Where there is no increase in the valuation of the asset as a result of the expenditure, a clear identification of the value for money should be provided.

Other accounts issues arising
In addition to the matters raised above, there were a number of specific minor presentational changes that arose during the course of our audit that have been made to the financial statements.

A number of minor amendments were processed to the main financial statements and the supporting disclosure notes in order to ensure the general consistency of information presented within the financial statements, in particular changes brought about by the transition to IFRS or revised requirements of the Code, and to enhance their interpretation by general readers and users of the published statements.

Misstatements
No misstatements were identified by the Council's finance team during the course of the audit.

A small number of misstatements were identified as a result of the audit work performed, the most significant of these are:
- Within the short term investments held by the Fund Managers, £1,047k has been identified as cash on 31 March 2011. This has been reclassified within current assets to cash and cash equivalents.

All adjusted and unadjusted misstatements are set out at Appendix B.

The auditor is required to communicate all uncorrected misstatements, other than those considered to be clearly trivial, to the entity's management and to request that management corrects them.

Our audit identified the following amendment to the financial statements that has not been processed by management on the grounds of materiality. The unadjusted misstatement relates to:
- Prior to disposal by auction, a reserve price on a property was set which was £25k in excess of the balance sheet value. The reserve price was treated as a revaluation, but was not evidenced as such. An adjustment was proposed to show this £25k as additional gain on disposal rather than a revaluation.

The impact of the unadjusted misstatement would be a £25k increase in the gain on disposal of non current assets and would not impact further on either the balance sheet or the Statement of Comprehensive Income and Expenditure for the year ended 31 March 2011.

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Evaluation of key controls

Internal Controls

We have undertaken sufficient work on key financial controls for the purpose of designing our programme of work for the financial statements audit. Our evaluation of the Council's key financial control systems did not identify any control issues that present a material risk to the accuracy of the financial statements.

Review of IT

We performed a high level review of the general IT control environment as part of the overall review of the internal control system concluding that there were no material weaknesses that could adversely impact on our audit of the accounts. We have reported separately a number of recommendations to improve the Council's overall arrangements.

Review of internal audit

We periodically review the Internal Audit function for compliance with requirements of the 2006 CIPFA Internal Audit Standards. Our most recent review in March 2011 concluded that Internal Audit met these requirements.

This work supports our review of the Annual Governance Statement (AGS) which in turn informs our Value for Money (VfM) conclusion in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources and our audit of the financial statements.

We note the overall Internal Audit opinion for the financial year ended 31 March 2011 concluded that the overall level of assurance awarded for systems reviewed is 'good', meaning all major controls are in place, but some minor controls may be absent, performance indicators are good and no errors were detected. This opinion provides an element of assurance to the Council about its overall governance arrangements.

Management of the risk of fraud

We have sought assurances from the Director of Internal Services and the Chair of the Audit Committee in respect of processes in place to identify and respond to the risk of fraud at the Council.

From these enquiries we have established that the Council considers there are adequate processes in place to mitigate against the risk of fraud occurring at the Council and that those charged with governance have sufficient oversight over these processes to give them the assurances they require in this area.

Annual Governance Statement (AGS)

We have examined the Council's arrangements and processes for compiling the AGS. In addition, we read the AGS and considered whether the statement is in accordance with the requirements of the Code and consistent with our knowledge of the Council.

We have concluded that the Council has good arrangements in place to compile the AGS and provide an appropriate audit trail for the Chief Executive and Leader to sign the statement.

At the July 2011 Audit Committee we presented a paper on the AGS around ensuring that the AGS adds real value to the Council. A response to this paper is to be provided at the September Audit Committee.

Public challenge matters

At the time of writing we have received no questions or objections in respect of the financial statements for the year ended 31 March 2011 that prevent us from issuing our audit certificate.

Next steps

The Audit Committee is required to recommend to Council the financial statements for the year ended 31 March 2011. In forming its conclusions the Committee's attention is drawn to the adjustments to the financial statements and the required Letter of Representation.

3. Value for money

Value for money conclusion

In order for us to provide a positive conclusion, the Council needs to demonstrate proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources.

The Audit Commission Code of Audit Practice 2010 describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

For the year ended 31 March 2011 we are required to give our conclusion based on the following two criteria specified by the Audit Commission:

- the Council has proper arrangements in place for securing financial resilience
- the Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness

Programme of work - review of proper arrangements

Our work has encompassed a review against proper corporate performance and financial management arrangements as defined by the Code. The findings from our review against these arrangements are detailed below:

Code criteria	Work completed	Conclusion
Planning finances effectively to deliver strategic priorities and secure sound financial health	Refer to our review of Financial Resilience	The Financial Resilience (FR) review considered the Medium Term Financial Plan (MTFP) in detail. This did not identify any significant issues and it was clear that focus had been maintained on the Council's priorities (see page 14 for summary of key findings). Adequate arrangements considered to be in place.

Code criteria	Work completed	Conclusion
Having a sound understanding of costs and performance and achieving efficiencies in activities	Refer to our review of Financial Resilience	The FR review highlighted significant work performed by the Council in identifying available savings and efficiencies. Clear savings plans have been put in place (see page 14 for summary of key findings). Adequate arrangements considered to be in place.
Reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people	Reviewed as part of financial resilience work, our audit of the financial statements and our review of the Council's annual report.	The Council provide detailed monthly finance reports for the Executive and regular information is available for senior management. This includes performance against budget and explanations for variances. The financial statements were submitted on time with no significant adjustments identified. Adequate arrangements considered to be in place.
Commissioning and procuring services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money	Considered as part of our risk assessment of the Council's arrangements to prioritise resources and improve efficiency and productivity	Work performed in prior years has not highlighted any significant issues around this criteria. The Council has been seen to undertake consultations with key stakeholders. Our monitoring of developments throughout the year did not highlight a significant change in performance and we are, therefore, satisfied that the criteria has been met. Adequate arrangements considered to be in place.

Code criteria	Work completed	Conclusion
Producing relevant and reliable data and information to support decision making and manage performance priorities	Considered as part of our risk assessment of the Council's arrangements to prioritise resources and improve efficiency and productivity	Work performed in prior years has not highlighted any significant issues around this criteria. The Council continues to produce and monitor performance indicators highlighting key information to help support priorities. Our monitoring of developments throughout the year did not highlight a significant change in performance and we are, therefore, satisfied that the criteria has been met. Adequate arrangements considered to be in place.
Promoting and demonstrating the principles and values of good governance	Refer to our review of Financial Resilience and our review of the AGS	The FR review includes a section on financial governance. This has not highlighted any significant issues, with appropriate information being regularly provided to the Executive to provide an opportunity for review and challenge (see page 14 for summary of key findings). Adequate arrangements considered to be in place.
Managing risks and maintaining a sound system of internal control	Refer to our review of Financial Resilience and our review of the AGS	The FR review includes a section on financial control. This has not highlighted any significant issues (see page 14 for summary of key findings). Internal Audit provided a 'good' level of assurance, meaning that all major controls are in place. Adequate arrangements considered to be in place.

Code criteria	Work completed	Conclusion
Making effective use of natural resources	We have updated our prior year assessment through discussions with officers and a review of documentation.	Work performed in prior years has not identified any significant issues around this criteria. The Council has a Climate Change Strategy in place and our monitoring of developments throughout the year did not highlight a significant change in performance. Adequate arrangements considered to be in place.
Managing assets effectively to help deliver strategic priorities and service needs	Considered as part of our risk assessment of the Council's arrangements to prioritise resources and improve efficiency and productivity	The FR review has identified that the Council are closely monitoring their capital programme. They recognise the changing economic environment and the pressures on capital receipts and continue to monitor this to ensure that the focus is kept on Council priorities. Adequate arrangements considered to be in place.
Planning, organising and developing the workforce effectively to support the achievement of strategic priorities	Refer to our review of Financial Resilience. Considered as part of our risk assessment of the Council's arrangements to prioritise resources and improve efficiency and productivity.	The Council's workforce forms a significant part of the MTFP going forward. Consideration of the MTFP through the FR review has identified that the Council is ensuring a focus on their corporate priorities and, therefore, ensuring that resources are aligned accordingly. Adequate arrangements considered to be in place.

Matters arising from the review of Value for Money

Key outcomes from our local programme of work are detailed below. Where we have identified areas of weakness in the Council's arrangements, recommendations to support improvements have been made and are detailed in Appendix C of this report.

Securing Financial Resilience

We have completed a review to assess whether the Council has robust systems and processes in place to effectively manage its financial risks and opportunities and secure a stable financial position. We also have considered whether the Council's financial position should enable it to continue to operate for the foreseeable future.

To support our conclusion against this criteria we have undertaken a review which considered the Council's arrangements against three key areas:

- Strategic financial planning
- Financial governance
- Financial control

The key findings from this review are:

- The Council has a good track record of financial management, achieving net underspends in each of the last three years. Both reserve levels and the working capital position of the Council are good, but these will come under increasing pressure as a result of Spending review 10.
- Sickness levels show a reducing trend and performance reflects well against both public and private sector averages.
- The Council was able to undertake the most recent MTFP process with an effective lead in time and it is clear that the process had a high level of stakeholder involvement. The Council made good progress with putting in place clear savings targets and packages to support them.
- Key to the MTFS is also how the Council manage the capital programme The Council intends that a significant proportion of the proposed programme will be funded from available capital receipts. This could prove challenging given the current economic outlook. In addition to this, there may be a requirement for the Council to undertake borrowing in the medium term. The Council must closely monitor the potential risks around the funding of the plan.
- The Council has a robust approach to financial and performance management and associated financial controls. In addition, they have a good record in controlling spend and achieving efficiencies and savings.
- Although a risk assessment of the ability to deliver individual savings is reported the Council should consider a more transparent Red/Amber/Green (RAG) rating for its savings proposals both in terms of deliverability and public acceptability. This would help provide a greater degree of clarity.
- Savings are monitored as part of the monthly healthcheck process. The budgets at the start of the year take on board the planned savings, and performance is then measured against the base budgets. Consideration should be given to monitoring the achievement of savings on a line by line basis. This separate monitoring process would help to scrutinise the delivery of savings in their own right which we consider to be good practice.
- The Council anticipates that Shared Internal Audit Service (SIAS) will increase resilience and give a greater economy of scale to allow access to specialist skills. However, for all members of the shared service, it is vital that quality is high and that each member is provided with sufficient levels of IA work and assurance. The Council must ensure that suitable monitoring arrangements are put in place to maintain a high standard of internal audit support.

Securing Economy, Efficiency and Effectiveness
We have reviewed whether the Council has prioritised its resources to take into account budget constraints and whether it has achieved cost reductions and improved productivity and efficiencies.

We have completed a review against key risk indicators which has not highlighted any significant issues that would impact upon our conclusion in respect of this criteria. A follow up of prior year recommendations has also been completed. All recommendations are included within the recommendations database, progress against which is reported to the Audit Committee. No significant recommendations have been identified as being outstanding.

Overall conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, we are satisfied that, in all significant respects East Hertfordshire District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Appendices

A. The reporting requirements of ISA 260

Purpose of report
The purpose of this report is to highlight the key issues affecting the results of the Council and the preparation of the Council's financial statements for the year ended 31 March 2011.

The document is also used to report to management to meet the mandatory requirements of International Standard on Auditing (UK and Ireland) 260.

We would like to point out that the matters dealt with in this report came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements of the Council.

This report is strictly confidential, and although it has been made available to management to facilitate discussions, it may not be taken as altering our responsibilities to the Council arising under the terms of our audit engagement.

The contents of this report should not be disclosed with third parties without our prior written consent.

Responsibilities of the directors and auditors
The directors are responsible for the preparation of the financial statements and for making available to us all of the information and explanations we consider necessary. Therefore, it is essential that the directors confirm that our understanding of all the matters in this report is appropriate, having regard to their knowledge of the particular circumstances.

Clarification of the roles and responsibilities with respect to internal controls
The Council's management is responsible for the identification, assessment, management and monitoring of risk, for developing, operating and monitoring the system of internal control and for providing assurance to the Audit Committee that it has done so.

The Audit Committee is required to review the Council's internal financial controls. In addition, the Audit Committee is required to review all other internal controls and approve the statements included in the annual report in relation to internal control and the management of risk.

The Audit Committee should receive reports from management as to the effectiveness of the systems they have established as well as the conclusions of any testing conducted by internal audit or ourselves.

We have applied our audit approach to document, evaluate and assess your internal controls over the financial reporting process in line with the requirements of auditing standards.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of testing, we identify any control weaknesses, we will report these to you.

In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We would be pleased to discuss any further work in this regard with the Audit Committee.

ISAUK 260 requires communication of:
- relationships that have a bearing on the independence of the audit firm and the integrity and objectivity of the engagement team
- nature and scope of the audit work
- significant findings from the audit

Independence and robustness

Ethical standards require us to give you full and fair disclosure of the matters relating to our independence. In this context we ensure that:

- the appointed audit partner and audit manager are subject to rotation every seven years;
- Grant Thornton, its partners and the audit team have no family, financial, employment, investment or business relationship with the Council;
- our fees paid by the Council do not represent an inappropriate proportion of total fee income for either the firm, office or individual partner; and
- at all times during the audit, we will maintain a robustly independent position in respect of key judgement areas

Audit and non-audit services

Services supplied to the Council for the year ended 31 March 2011 are as follows:

	£
Audit services	
Statutory audit	120,833
Certification of claims and returns*	25,000

*the quoted fee for grant certification work is an estimate only and will be charged at published hourly rates

Audit quality assurance

Grant Thornton's audit practice is currently monitored by the Audit Inspection Unit, an arm of the Financial Reporting Council which has responsibility for monitoring the firm's public interest audit engagements.

The audit practice is also monitored by the Quality Assurance Directorate of the ICAEW. Grant Thornton also conducts internal quality reviews of engagements.

Furthermore, audits of public interest bodies are subject to the Audit Commission's quality review process.

We would be happy to discuss further the firm's approach to quality assurance.

B. Audit adjustments

Adjustment type

Misstatement - A change in the value of a balance presented in the financial statements
Classification - The movement of a balance from one location in the accounts to another
Disclosure - A change in the way in which a balance is disclosed or presented in an explanatory note

Adjustments to the financial statements

Adjustment type	£000	Account balance	Impact on financial statements
Classification	1,047	Short term investments / cash and cash equivalents	Within the short term investments held by the Fund Managers, £1,047k has been identified as cash on 31 March 2011. This has been reclassified within current assets to cash and cash equivalents.
Disclosure	-	Property, Plant & Equipment	Additional disclosure was required to provide context for the impairment charge against Hertford Theatre in the year.
Disclosure	-	Various	A number of minor amendments were processed to the main financial statements and the supporting disclosure notes in order to ensure the general consistency of information presented within the financial statements.

Unprocessed adjustments to the financial statements

Adjustment type	£000	Account balance	Impact on financial statements
Misstatement	25	Gain on disposal (I&E) / Equity	Prior to disposal by auction, a reserve price on a property was set which was £25k in excess of the balance sheet value. The reserve price was treated as a revaluation, but was not evidenced as such. An adjustment was proposed to show this £25k as additional gain on disposal rather than a revaluation.

C. Action plan

Priority
High - Significant effect on control system
Medium - Effect on control system
Low - Best practice

Rec No.	Recommendation	Priority	Management Comments	Implementation date and responsibility
1	The Council should identify the impact of proposed capital investment on an assets valuation as part of the business case for authorising the spend. This should feed into the value for money analysis completed to support any significant capital expenditure.	M		
2	The Council should ensure that adequate monitoring arrangements are put in place to follow up the recommendations raised within the separate Financial Resilience report.	M		

Grant Thornton

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EAST HERTS COUNCIL

AUDIT COMMITTEE – 21 SEPTEMBER 2011
COUNCIL COMMITTEE – 28 SEPTEMBER 2011

REPORT BY THE EXECUTIVE MEMBER FOR RESOURCES AND INTERNAL SUPPORT

STATEMENT OF ACCOUNTS 2010/11

WARD(S) AFFECTED: None specific

Purpose/Summary of Report

- This report sets out the background to the requirement for Members to consider and approve the Statement of Accounts. The report sets out the key changes arising from the move to International Financial Reporting Standards (IFRS). Supporting comments are made on each of the main statements.

RECOMMENDATION FOR DECISION BY AUDIT COMMITTEE :	
(A)	**That the Council's Statement of Accounts for the financial year 2010/11 be approved and signed by the Chairman at the conclusion of the meeting.**

1.0 Background

1.1 The approval of the Council's Accounts is a statutory requirement. The Accounts and Audit Regulations 2011, which came into force on 31 March 2011, set out changes to the requirements for the production, approval and publication of a Council's annual Statement of Accounts. These changes were reported to the Committee at its meeting on 12 July 2011.

1.2 The Committee are reminded that the new regulations now require the Accounts to be signed by the Council's S151 officer by 30 June following the relevant accounting year and passed for audit before being approved by the relevant body of the Council (as defined within the Regulations) following audit and then published by 30 September.

1.3 This change in requirements now means that the relevant body (for this Council the Audit Committee following amendment of the constitution) has the benefit of receiving the External Auditor's report on the accounts prior to Member approval.

1.4 A separate report elsewhere on the agenda deals with requirements for consideration and approval of the Council's Annual Governance Statement, which is required to be included within the Council's overall annual accounts.

2.0 Report

2.1 The Statement of Accounts is attached at Essential Reference Paper B to the report.

2.2 The audit of the Council's accounts has now been completed and the External Auditor's report is included at item 8 to the agenda. No significant issues have arisen through the audit process and officers have agreed and undertaken some minor amendments predominantly to the accounting notes. At the time of drafting this report the Committee should note, however, that an objection to the accounts has been received by the External Auditor. Depending on the time needed for the Auditor to deal with the objection there may be a delay in the signing of the accounts. Information regarding the objection and the Auditor's findings will be submitted to a future meeting of this committee.

2.3 The Statement of Accounts is produced in accordance with appropriate Regulations, guidance notes and "Codes of Practice" and there is a high level of prescription with regard to their form and content.

2.4 This item is technical by nature and it would be of assistance if any questions that Committee Members may have of a detailed nature could be referred to the Director of Internal Services or Head of Financial Support Services in advance of the meeting in order that officers have time to research any particular issues.

2.5 The Council's financial performance for 2010/11, which is reflected in the accounts presented, has been reported in depth to the Executive on 5 July 2011. The Audit Committee should note that the Accounts have been prepared in line with proposals for Reserves/ Balances which have been agreed by the Executive/Council as part of either the Budget (including MTFP) or "Healthcheck" processes.

2.6 The Committee will be aware that the 2010/11 Accounts have been required to be produced for the first time in line with International Financial Reporting Standards (IFRS). The move to IFRS has required significant changes to both the format and presentation of the accounts including a complete restatement of the prior year comparatives. Work has been ongoing on this “project” since April 2010. It should be noted, however, that in this “transitional” year there has been the need to include a third balance sheet and various reconciliation statements which will not be repeated going forward.

The move to IFRS based Accounts has impacted upon the Council in the following areas;

- Leases.

  A significant amount of work has been undertaken in assessing the Council’s Leasing arrangements (both as Lessee and Lessor). The result has seen the lease of Pinders Lodge reclassified from an operating lease to a finance lease, with the building element being derecognised as an asset and recognised as a finance lease debtor.

  The Council has also recognised an arrangement effectively containing a lease relating to vehicles used in the (former) refuse and recycling contract with Enterprise. This has resulted in the Council recognising the vehicles as an asset in the balance sheet with a finance lease liability.

- Short -Term Accumulating Absences.

  The Council has been required to accrue for any annual leave or flexi leave earned but not taken at 31 March each year. Under Government Regulation the impact upon the Council tax is mitigated by a transfer to the Accumulated Absences Reserve.

- Grants.

  Capital grants and contributions are now required to be recognised as income when they become receivable (as opposed to being held in a deferred grants account and recognised as income over the life of the assets that they were used to fund). The grants are credited to the CI &E Statement and then transferred to the capital adjustment account (where grant conditions have been met and expenditure incurred) or to the capital grants unapplied account (where grant conditions have been met but expenditure not yet incurred).

- Intangible assets.
  Software has been reclassified from a classification of tangible assets to intangible assets.

- Investment Properties.
  The change in accounting requirements means that any change in the fair value of investment properties will now be recognised in the surplus or deficit on provision of services. Subsequent to this change the (former) balance on the Revaluation Reserve (relating to investment properties) has been transferred to the Capital Adjustment Account. The rental income and direct expenditure is now disclosed as part of Financing and Investment Income and Expenditure within the CI&E Statement as opposed to part of the net cost of services.

- Cash and cash Equivalents.
  Cash and cash equivalents now need to be disclosed on the face of the balance sheet. Cash equivalents are short term highly liquid investments that are readily convertible to cash and which are subject to an insignificant risk of changes in value.

The Accounts now comprise of an explanatory foreword, four core statements together with supporting notes (the first of which now sets out the accounting policies) and a supplementary note on the Collection Fund. The following comments summarise the purposes of the foreword and each main Statement as well as highlighting any key issues.

2.6.1 Explanatory Foreword

The purpose of the foreword is to offer interested parties a guide to the Authority's overall financial position. An overview of Income sources, how the money is spent and spend against each main service area is given in the form of the pie-chart diagrams.

Details of Actual spend compared to the original budget is set out for both Revenue and Capital activities together with comments on significant variances.

2.6.2 Note 1 - Accounting Policies

The purpose of this note is to set out the basis for recognition, measurement and disclosure of transactions and other events in the Accounts.

In line with the move to IFRS based accounting the Council has adopted a number of new accounting policies.

2.6.3 The Movement in Reserves Statement

This Statement shows the movement in the year on the different reserves held by the Council, analysed into “usable reserves” (i.e. those which can be applied to fund expenditure or reduce taxation) and other reserves. The surplus or (deficit) on the provision of services line shows the economic cost of providing the Council’s services with more details being shown in the Comprehensive Income & Expenditure Statement. An adjustment is made to reflect the difference between the surplus / (deficit) shown and the amount to be charged under statutory provision for council tax setting purposes.

2.6.4 The Comprehensive Income & Expenditure statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation.

As previously reported asset valuations and pension accounting continue to have a significant impact on the net cost of services and the total Comprehensive Income & Expenditure reported for the year.

In particular the revaluation of Hertford Theatre (following enhancement works) which now reflects a rental value (derived by reference to the underlying income stream) has resulted in a significant reduction in value compared to the previous depreciated replacement cost method. A downward adjustment of £3.9m is reflected within the net cost of services.

Members are reminded that a change (from Retail Price Index to Consumer Price Index) in the basis of up-rating pension benefits from April 2011, together with other favourable actuarial assumptions has resulted in an overall reduction in the Council’s pension liabilities of £19.975m at

31 march 2011 which has had a significant impact on the figures reported.

2.6.5 <u>The Balance Sheet</u>

The Consolidated Balance Sheet includes the assets and liabilities of all activities of the Authority. It shows the balances and reserves at the Authority's disposal and its long term indebtedness together with the fixed and net current assets which are employed by the Council in delivering its services.

The value of Property plant & equipment has decreased by some £3.5m over the year reflecting new Capital Investment, disposals and a revaluation of assets (including Hertford Theatre) during the year.

There has been no change to Long Term borrowing during the year. A reduction of £4.2m in investments reflects in year funding requirements, in particular the capital programme.

A reduction in both long term debtors and deferred liabilities is offset by an increase to current assets (debtors) and current liabilities (creditors). These relate primarily to transactions pending on The Causeway disposals settlement which is due in October 2011.

Usable capital receipts have reduced by £3.9m reflecting the funding of the Capital Programme (£5.2m) offset by new in-year receipts of £1.3m.

A significant change to the Balance Sheet is the Pensions liability (now assessed under IAS 19) which has decreased from £42.1m to just under £22.1m (see para 2.64 above).

Revenue reserves and balances have reduced by a modest £30k in the year. This represents a reduction of £1.022m in earmarked reserves (in line with planned assumptions) offset by an increase of £0.992m in the general reserve balance. Overall balances remain within the limits set out within the Council's Reserves Policy.

2.6.5 Collection Fund

Further to the changes in accounting arrangements for Council Tax and NNDR that were introduced in April 2009 the account no longer features within the Council's balance sheet. There remains, however, a statutory requirement for the Council as a billing authority to maintain a separate Collection Fund which shows the transactions in relation to both Non-Domestic Rates and Council Tax.

The Account is included as a Supplementary Note within the overall accounts presented. (Page 55 of the Statement of Accounts).

The balance on the fund (surplus of £417k at 31 March 2011) is attributable to the main precepting authorities in proportion to the precepts levied. This Council's proportion is £62k which will be available to support the Council Tax in 2012/13.

2.6.6 Cash Flow Statement

This statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

Further to the change in accounting arrangements for Council Tax and NNDR (mentioned above), the statement now excludes precept payments to major preceptors together with their share of Council Tax receipts along with the cash collected from NNDR payers and the Council's payment to the NNDR pool.

A net increase is shown in liquid resources in respect of these overall cash movements.

2.6.7 Annual Governance Statement

This Statement is included within the Council's overall Statement of Accounts. See separate report on the Agenda.

3.0 Implications/Consultation

3.1 Information on any corporate issues and consultation associated with this report can be found within **Essential Reference Paper "A"**

Background Papers

Final Accounts Working Papers 2010/11.

Contact Member:	Councillor Mike Tindale, Executive Member for Resources and Internal Support
Contact Officers:	Alan Madin, Director of Internal Services - Ext 1401 Simon Chancellor, Head of Financial Support Services Ext 2050
Report Author:	Simon Chancellor, Head of Financial Support Services

Contribution to the Council's Corporate Priorities/ Objectives *(delete as appropriate):*	**Fit for purpose, services fit for you** *Deliver customer focused services by maintaining and developing a well managed and publicly accountable organisation.*
Consultation:	Consultations have taken place with relevant Officers and external audit staff.
Legal:	The legal implications are set out within the report.
Financial:	As set out within the report.
Human Resource:	There are no human resource implications.
Risk Management:	Any issues arising through the External Audit process may require further reporting arrangements.

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EAST HERTS COUNCIL

STATEMENT OF ACCOUNTS

2010/11

STATEMENT OF ACCOUNTS 2010/11

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STATEMENT OF ACCOUNTS 2010/11

EXPLANATORY FOREWORD

1. Summary of Contents

The Council's accounts for the year ended 31 March 2011 are set out on pages 6 to 57. They consist of :-

The Movement in Reserves Statement - shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (ie those that can be applied to fund expenditure or reduce local taxation) and other reserves.

The Comprehensive Income & Expenditure Statement - a summary of the resources generated and consumed by the authority in the year.

The Balance Sheet - which sets out the financial position of the Council on 31 March 2011

The Cash Flow Statement - which summarises the Council's inflows and outflows of cash for the year.

Notes to the accounts - provide support to the core financial statements, which informs and gives sufficient information to present a good understanding of the Council's activities. The Notes include a Statement of Accounting Policies which detail the legislation and principles on which the Statement of Accounts has been prepared. The purpose is to explain the basis for recognition, measurement and disclosure of transactions and other events in the accounts.

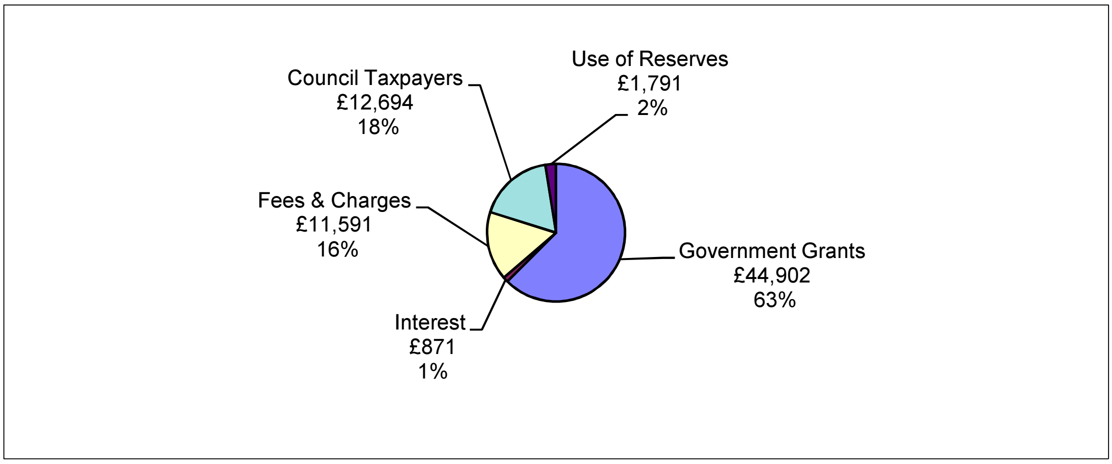
Supplementary Financial Statements - The Collection Fund shows the level of Non Domestic Rates and Council Tax that has been received by the Council, as billing authority, during the period.

Statement of Responsibilities for the Statement of Accounts - identifies the officer who is responsible for the proper administration of the Council's financial affairs. The purpose is for the Chief Finance Officer to sign under a statement that the accounts present a true and fair view of the financial position of the authority at the accounting date and its income and expenditure for the year ended.

2. Overview of Council's Activities

This foreword provides a brief explanation of the financial aspects of the Council's activities and draws attention to the main characteristics of the Council's financial position. The three charts which follow show in broad terms where the Council's money comes from, what it is spent on and what services it provides.

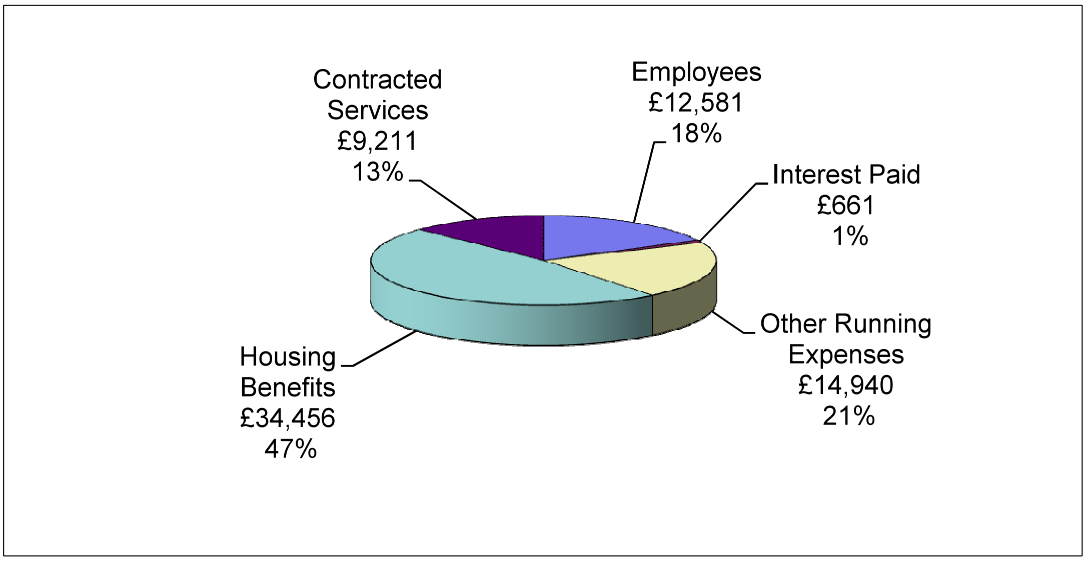
WHERE THE MONEY COMES FROM
Sources of income to the Council
£000



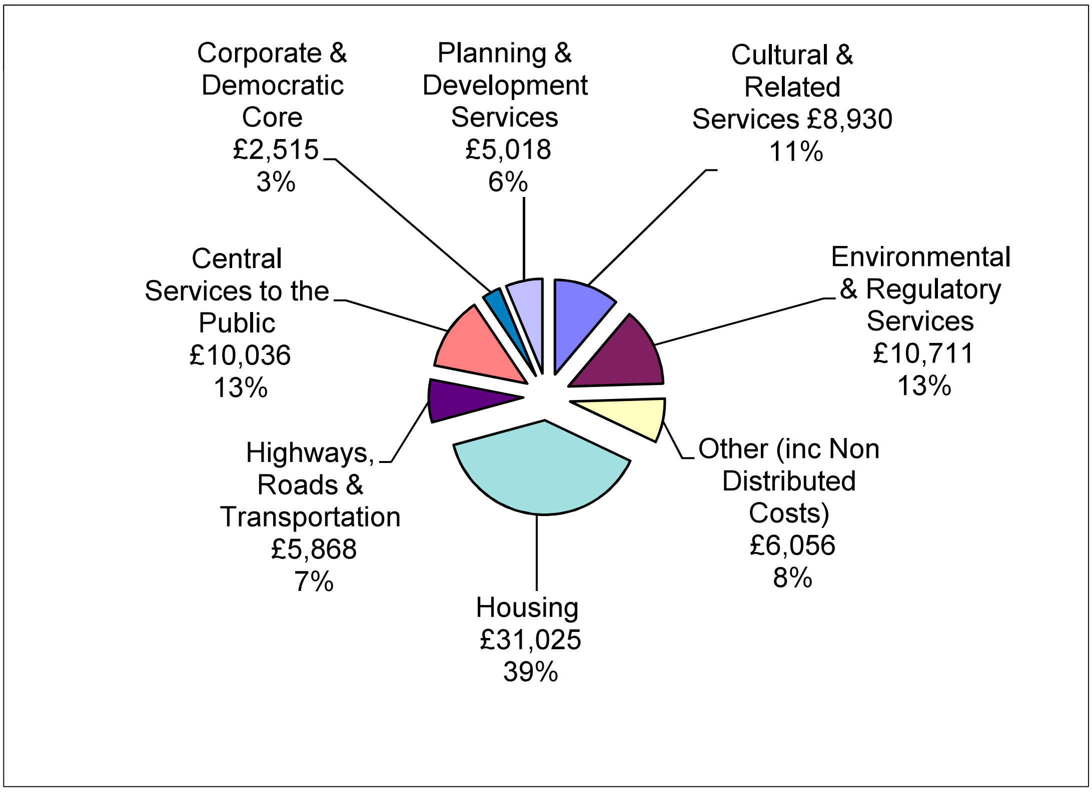
It can be seen that the largest source of the Council's income is from Government Grants.

EXPLANATORY FOREWORD (continued)

HOW THE MONEY IS SPENT
£000



THE SERVICES PROVIDED
£000



The cost of "The Services Provided" includes capital charges, impairments, revenue funded from capital under statute and capital government grants totalling £8,310k which have been excluded from the chart "How the money is spent". Also includes expenditure on investment properties not included in the "Net Cost Of Services" shown in the Comprehensive Income and Expenditure statement

3. General Fund - Comparison of Actual Expenditure and Income with Budget

A comparison of the budget with actual income and expenditure for 2010/11 is shown below:

	Budget	Actual	Variance
	£000	£000	£000
Net Cost of Services (including Investment Properties)	23,586	25,829	2,243
Non Distributed Costs	0	(9,728)	(9,728)
Finance Transactions	(2,269)	(6,906)	(4,637)
Interest Transactions	(987)	(211)	776
Pensions Interest Cost & Expected Return on Pensions Assets	505	1,007	502
Appropriations - Financing Items	25	25	0
Appropriations - REFCUS (see Policy xix, page 20)	(2,511)	(1,404)	1,107
Movement on the Pensions Reserve	(34)	8,816	8,850
Net Expenditure	18,315	17,428	(887)
Collection Fund Contribution	16	16	0
Contribution from NNDR Pool	(7,144)	(7,144)	0
Revenue Support Grant	(1,037)	(1,037)	0
General Grant	0	(37)	(37)
Council Tax Raised	(9,196)	(9,196)	0
Balance to be appropriated (from) Reserves	(954)	(30)	(924)

The above variance is represented by:	£000
An underlying underspend against the 2010/11 estimate	(964)
Less:-	
Contribution from General Reserve relating to budgets b/fwd from 2009/10	40
	(924)

Overall, this has resulted in £30k being drawn from the Council's Reserve balances.

The variances relating to the Net Cost of Services and Finance Transactions include £4.36m of revaluation adjustments / impairments in respect of tangible fixed assets. The balance of the variance within the net cost of service relates to changes in capital charges, in particular REFCUS and the underlying underspend.

Costs identified under Non Distributed Costs, Pensions Interest Cost & Expected Return on Pension Assets and the Movement in Pensions Reserve represent accounting transactions required to be shown in line with accounting reporting standards (IAS 19). Together with pension costs included within the net cost of services they total £1.98m (this being the actual cost to the Council). As some of these accounting entries are not available until year end and do not impact on the level of Council Tax to be levied, they are not reflected within the budget figures. The Non Distributed Costs figure is largely offset within the Movement on Pensions Reserve figure and relates primarily to the change in indexation of pensions from being based on the Retail Price Index (R.P.I.) to being based on the Consumer Price Index (C.P.I.) which substantially reduces the Pension Fund deficit.

The favourable underlying variance of £0.964m against original budget demonstrates the Council's commitment to sound financial management and its prudent approach to funding. The significant variances contributing to this position were;

The cost of the recycling service which showed a net reduction of £1.06m compared to the original estimate. This arose principally from the ongoing success of ARC (alternate refuse collection) arrangements which resulted in significant additional income through the Hertfordshire Waste Partnership funding formula. The service also benefited from lower contract and material handling costs and increased income from the sale of recyclable materials.

3. General Fund - Comparison of Actual Expenditure and Income with Budget (cont.)

Other variances contributing to the overall underspend included:

Net savings in delivering the Council's Benefits service (£253k) relating in part to additional recovery of overpaid benefit.

A reduction in the cost of delivering the Council's Planning and Building Control services of £270k due to a combination of reduced costs, increased fee income and a reprofiling of work relating to the Local Development Framework review process.

Reduced costs relating to IT licences, Members Allowances, Legal fees and Audit fees of £221k. A reduction in the net cost of housing related services, including additional hostel rent income of £48k resulted in a favourable variance of £121k.

This was offset by a reduction in investment interest of £779k due to the econonic climate and low level of prevailing interest rates and reduced car parking income of £184k.

The Council worked hard during the year to continue to drive down costs and identify efficiencies whilst maintaining quality services in line with its priorities.

In light of the underspend position, the Council has reviewed its financial reserves. Appropriations, in line with the Council's MTFP should ensure that the Council has resources to meet future initiatives in priority services and funding to meet the cost of key processes such as the Local Development Framework review. In line with financial planning assumptions the Council has set aside £400k in order to meet transitional staffing costs, including those arising from implementing planned budget savings through staffing restructurings.

The General Reserve balance will be increased by a net £992k after taking into account appropriations relating to budgets approved to be brought forward from 2009/10 of £40k. This compares to a budgeted increase of £159k. Use of earmarked Reserves total £1.022m compared to the budgeted use of £1.112m.

The Comprehensive Income and Expenditure Statement (see page 7), shows a surplus of £13.9m. This compares to a nil net movement on the Council's General Fund working balance. The difference relates primarily to pension transactions (in particular actuarial gains) under IAS 19 and capital related transactions including impairment.

4. Capital Expenditure & Financing

During 2010/11 the Council incurred expenditure of £5.909m (see page 45, note 25) on capital projects compared with an original budget of £6.426m.

The underspend of £517k against the original estimate arose from a combination of strategic decisions regarding the delivery of a number of key projects, in particular the contract to refurbish Wallfields together with delays to some projects resulting in them slipping into 2011/12. In particular, Social Housing schemes, support for the Drill Hall and various asset enhancement works.

Nearly £1.1m was spent on the refurbisment of the "new" Hertford Theatre. This invest to save project has provided the Council with a flagship community asset that will enable the delivery of a number of Council priorities through a more diverse range of programmes.

The policy of giving capital grants towards community projects (inc. partnership funding) continued and over £200k was spent in the year. Over £848k was given in grants to private sector owners for renovation and provision of disabled facilities.

4. Capital Expenditure & Financing (cont.)

Expenditure on environmental projects included £168k on play sites and equipment, £180k on Town Centre Enhancements, £1.65m on car parks including the acquisition of two car parks (under an invest to save scheme) and a major refubishment of Gascoyne Way as well as £134k on refuse and recycling schemes.

Details of the Council's financing arrangements for the year are set out on page 45.

No borrowing was undertaken in 2010/11 and the Council's overall long term borrowing is £7.5m as at 31st March 2011. The balance sheet shows a liability of £7.71m , however, this includes accrued interest of £210k (see note 30 on page 53).

6. Pensions Liabilities

The Council participates in the Local Government Pension Scheme which is administered by Hertfordshire County Council. Since the introduction of (the former) FRS17 in 2003/04 the impact of any pension liability must be shown in the balance sheet. The Council's liability at 31st March 2011 is £22.093m which is a decrease of £19.975m compared to the position at 31st March 2010 This change is largely due to a reduction in the present value of fund liabilities. Further information is given on pages 48 - 50.

7. Financial Reporting and the Euro

It is a Council requirement that all new financial software packages be capable of accommodating conversion to the Euro and as such there are no readily identifiable costs to report.

8. Further Information

Interested parties have a statutory right to inspect the accounts before the audit is completed. The availability of the accounts for inspection is advertised in the local press.

Further information about the accounts can be obtained by contacting the Head of Financial Support Services, Council Offices, Charrington House, The Causeway, Bishop's Stortford, Herts. CM23 2ER.

If you would like to receive this document in large print, Braille, audio, electronic format, or translation into another language, please contact Communications at East Herts Council on 01992 531688 or e-mail : pr@eastherts.gov.uk.

MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (ie those that can be applied to fund expenditure or reduce taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the economic cost of providing the Council's services with more details shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

		General Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserve	Capital Grants Unapplied	General Reserve	Total Usable Reserves	Total Unusable Reserves	**Total Reserves**
		£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 31 March 2009		3,854	4,103	11,251	512	2,536	22,256	93,269	**115,525**
Movement in reserves during 2009/10									
Deficit on provision of services		(5,666)	-	-	-	-	(5,666)	-	**(5,666)**
Other comprehensive Income and Expenditure		-	-	-	-	-	-	(23,833)	**(23,833)**
Total Comprehensive Income and Expenditure		(5,666)	-	-	-	-	(5,666)	(23,833)	**(29,499)**
Adjustments between accounting basis and funding basis under regulations	*Note 4*	5,494	-	2,941	315	-	8,750	(8,750)	**0**
Net Increase/Decrease before Transfers to Earmarked Reserves		**(172)**	**-**	**2,941**	**315**	**-**	**3,084**	**(32,583)**	**(29,499)**
Transfers to/(from) Earmarked Reserves	*Note 5*	172	(405)	(6,578)	-	234	(6,577)	6,577	**0**
Increase/Decrease in Year		0	(405)	(3,637)	315	234	(3,493)	(26,006)	(29,499)
Balance as at 31 March 2010 carried forward		**3,854**	**3,698**	**7,614**	**827**	**2,770**	**18,763**	**67,263**	**86,026**

		General Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserve	Capital Grants Unapplied	General Reserve	Total Usable Reserves	Total Unusable Reserves	**Total Reserves**
		£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 31 March 2010		**3,854**	**3,698**	**7,614**	**827**	**2,770**	**18,763**	**67,263**	**86,026**
Movement in reserves during 2010/11									
Surplus on provision of services		2,916	-	-	-	-	2,916	-	**2,916**
Other comprehensive Income and Expenditure		-	-	-	-	-	-	11,018	**11,018**
Total Comprehensive Income and Expenditure		2,916	-	-	-	-	2,916	11,018	**13,934**
Adjustments between accounting basis and funding basis under regulations	*Note 4*	(2,946)	-	1,289	(173)	-	(1,830)	1,830	**0**
Net Increase/Decrease before Transfers to Earmarked Reserves		**(30)**	**-**	**1,289**	**(173)**	**-**	**1,086**	**12,848**	**13,934**
Transfers to/(from) Earmarked Reserves	*Note 5*	30	(1,022)	(5,182)	-	992	(5,182)	5,182	**0**
Increase/Decrease in Year		0	(1,022)	(3,893)	(173)	992	(4,096)	18,030	**13,934**
Balance as at 31 March 2011 carried forward		**3,854**	**2,676**	**3,721**	**654**	**3,762**	**14,667**	**85,293**	**99,960**

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; generally this will be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

	2010/11 Gross Expenditure £000	2010/11 Gross Income £000	2010/11 Net Expenditure £000	2009/10 Net Expenditure Restated £000
Central Services to the Public	10,036	(8,085)	1,951	2,131
Cultural & Related Services	8,930	(868)	8,062	6,543
Environmental & Regulatory Services	10,711	(3,611)	7,100	7,426
Planning & Development Services	4,664	(1,856)	2,808	2,601
Highways and Transport Services	5,868	(4,402)	1,466	3,928
Other Housing Services	31,025	(28,888)	2,137	2,056
Corporate & Democratic Core	2,515	(14)	2,501	2,675
Non Distributed Costs	0	(9,728)	(9,728)	242
NET COST OF SERVICES			**16,297**	**27,602**
Payments of precepts to parishes			3,514	3,454
Payments of housing capital receipts to government			5	15
(Gain) on disposal of non current (fixed assets)			(748)	(4,030)
OTHER OPERATING EXPENDITURE/(INCOME)			**2,771**	**(561)**
Interest payable and similar charges			661	681
Pensions interest costs and expected return on pension assets			1,007	1,562
Interest receivable and similar income			(871)	(2,494)
Income from investment properties (Note 7)			(549)	(642)
Direct expenditure incurred on investment properties (Note 7)			353	325
Changes in Fair Value of Investment Properties			(1,414)	-
(Gain)/Loss on disposal of investment properties			(6)	575
FINANCING AND INVESTMENT (INCOME)/EXPENDITURE			**(819)**	**7**
Recognised capital grants and contributions			(160)	(590)
Council tax income			(12,787)	(12,411)
Non domestic rates			(7,144)	(6,614)
Non service related government grants			(1,074)	(1,767)
TAXATION AND NON-SPECIFIC GRANT INCOME (see Note 23)			**(21,165)**	**(21,382)**
(SURPLUS) / DEFICIT ON PROVISION OF SERVICES			**(2,916)**	**5,666**
Revaluation (Gains) / Losses			(25)	79
Impairment losses (chargeable to Revaluation Reserve)			188	-
(SURPLUS)/DEFICIT ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT			**163**	**79**
(Surplus)/Deficit on revaluation of available for sale financial assets (Note 9)			(23)	463
Actuarial (gain) / losses on pension liability (Note 27)			(11,158)	23,291
OTHER COMPREHENSIVE INCOME AND EXPENDITURE			**(11,018)**	**23,833**
TOTAL COMPREHENSIVE INCOME AND EXPENDITURE			**(13,934)**	**29,499**

All operations arise from continuing activities.

BALANCE SHEET

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council.

		31 March '11		31 March '10 Restated	01 April '09 Restated
		£000	£000	£000	£000
Property, Plant & Equipment	*Note 6*				
- Other land and buildings		39,786		43,205	49,235
- Vehicles, plant, furniture and equipment		4,884		5,001	4,231
- Infrastructure assets		3,602		3,919	4,245
- Community assets		1,193	49,465	797	755
Investment Properties		9,764		8,439	11,688
Intangible Assets	*Note 8*	712	10,476	640	510
			59,941	**62,001**	**70,664**
Long Term Investments	*Note 29*	8		8	8
Long Term Debtors	*Note 12*	178	186	7,536	207
TOTAL LONG TERM ASSETS			**60,127**	**69,545**	**70,879**
Short Term Investments	*Note 29*	65,867		71,128	75,904
Short Term Debtors	*Note 12*	13,160		6,400	6,183
Cash and Cash Equivalents	*Note 13*	3,033		2,150	2,025
CURRENT ASSETS			**82,060**	**79,678**	**84,112**
Bank Overdraft		(1,749)		(2,538)	(934)
Short Term Borrowing		-		-	(401)
Short Term Creditors	*Note 14*	(10,088)		(5,399)	(5,195)
CURRENT LIABILITIES			**(11,837)**	**(7,937)**	**(6,530)**
Provisions	*Note 15*	(61)		(57)	(42)
Long Term Borrowing	*Note 30*	(7,710)		(7,710)	(7,710)
Deferred liabilities	*Note 14*	(222)		(5,101)	(6,790)
Deferred credits	*Note 31*	(266)		(324)	(452)
Net Pension Liability	*Note 17*	(22,093)		(42,068)	(17,942)
Capital Grant Receipts in Advance	*Note 23*	(38)		-	-
LONG TERM LIABILITIES			**(30,390)**	**(55,260)**	**(32,936)**
NET ASSETS			**99,960**	**86,026**	**115,525**
USABLE RESERVES					
- General Fund	*Note 16*	3,854		3,854	3,854
- General reserve	*Note 16*	3,762		2,770	2,536
- Earmarked reserves	*Note 5*	2,676		3,698	4,103
- Capital Receipts Reserve	*Note 16*	3,721		7,614	11,251
- Capital grants Unapplied	*Note 16*	654		827	512
			14,667	**18,763**	**22,256**
UNUSABLE RESERVES					
- Revaluation Reserve	*Note 17*	2,838		3,110	3,287
- Avaliable-for-Sale Reserve	*Note 17*	23		-	463
- Pensions Reserve	*Note 17*	(22,093)		(42,068)	(17,942)
- Capital Adjustment Account	*Note 17*	104,384		106,173	107,527
- Deferred Capital Receipts	*Note 17*	159		160	161
- Collection Fund Adjustment Account	*Note 17*	62		(31)	(147)
- Short-term Accumulating Compensated Absences Account	*Note 17*	(80)		(81)	(80)
			85,293	**67,263**	**93,269**
TOTAL RESERVES			**99,960**	**86,026**	**115,525**

THE CASH FLOW STATEMENT

The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period.

	2010/11		2009/10 Restated
	£000	£000	£000
OPERATING ACTIVITIES			
Cash Inflows			
Council Tax receipts	(11,791)		(11,649)
NNDR receipts from national pool (Grant)	(7,144)		(6,614)
Revenue Support Grant	(1,037)		(1,527)
DWP grants for benefits	(35,406)		(35,388)
Other Government grants	(663)		(1,047)
Cash received for goods and services	(10,095)		(10,376)
Interest received	(697)		(2,729)
Cash inflows generated from operating activities	(66,833)		(69,330)
Cash Out Flows			
Cash paid to and on behalf of employees	12,581		12,981
Housing Benefit paid out	26,877		25,846
Other operating cash payments	19,515		22,341
Precepts paid to other authorities	3,514		3,454
Cash paid to suppliers of goods and services	-		258
Interest paid	661		681
Cash outflows generated from operating activities	63,148		65,561
Net Cash (Inflow)/Outflow from operating activities		**(3,685)**	**(3,769)**
INVESTING ACTIVITIES			
- Purchase of property plant and equipment, investment property and intangible assets	5,029		5,290
- Purchase of short-term and long-term investments	-		-
- Other payments for investing activities	5		15
- Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(1,294)		(606)
- Capital grants	(558)		(797)
- Proceeds from short-term and long-term investments	(5,261)		(4,776)
- Other receipts from investing activities	-		(87)
Net cash (inflow)/outflowfrom investing activities		**(2,079)**	**(961)**
FINANCING ACTIVITIES			
- Cash receipts of short and long-term borrowing	-		-
- Other receipts from financing activities	(1,141)		-
- Cash payments for the reduction of the outstanding liabilities relating to finance leases	-		102
- Repayments of short and long-term borrowing	-		401
- Other payments for financing activities	5,233		5,706
Net cash (inflow)/outflow from financing activities		**4,092**	**6,209**
Net (increase) or decrease in cash and cash equivalents		**(1,672)**	1,479
Cash and cash equivalents at the beginning of the reporting period		388	(1,091)
Cash and cash equivalents at the end of the reporting period		**(1,284)**	**388**

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

i. The Statement of Accounts summarises the Council's transactions for the 2010/11 financial year and its position at the year-end of 31 March 2011. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011 which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Council Accounting in the United Kingdom 2010/11 and the Best Value Accounting Code of Practice 2010/11, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act. The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

ii. Accruals of Income & Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

Income from the provision of services in the form of sales, fees, charges and rents is recognised and accounted for in the period to which they relate.

Expenses in relation to services received (including services provided by employees, transport related, premises related and supplies and services related expenditure) are recorded as expenditure when the services are received rather than when payments are made, with the exception of quarterly utility payments where no actual apportionment is made for bills spanning two financial years.

Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Provision is made for doubtful debts and known uncollectable debts are written off.

iii. Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in no more than three months or less from the date of acquisition that are readily convertible to known amounts of cash with insignificant risk of change in value, and are used to meet short term liquidity requirements.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

iv. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

See Note 2 Transition to IFRS for details of prior period adjustments made as a result of the transition to IFRS.

v. Charges to Revenue for Non - Current Assets
(Property, Plant and Equipment and Intangible Assets)

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

depreciation attributable to the assets used by the relevant service

revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off

amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. Depreciation, revaluation, impairment losses and amortisations are therefore transferred to the Capital Adjustment Account in the Movement in Reserves Statement.

vi. Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as salaries, paid annual leave and paid sick leave, and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements and flexi time earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Post Employment Benefits (Pensions)

The Council participates in one scheme, the Local Government Pension Scheme, which is a defined benefit final salary scheme administered by Hertfordshire County Council.

The liabilities of the Hertfordshire County Council pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate of 5.5% (based on the indicative rate of return on high quality corporate bonds [iBoxx Sterling Corporates AA Over 15 years Index at the IAS19 valuation date with one slight amendment - the removal of recently re-rated bonds from the index]).

The assets of Hertfordshire County Council pension fund attributable to the Council are included in the Balance Sheet at their fair value:

- quoted securities – current bid price
- unquoted securities – professional estimate
- Unit trust and managed fund investments (including property) – current bid price.

vi. Employee Benefits - continued

The change in the net pensions liability is analysed into seven components:

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
- past service cost / gain – the increase / decrease in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years - debited / credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return, credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- gains or losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve
- contributions paid to the pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

In line with the requirements of the Code the past service contribution is no longer a current revenue item but is included as part of the payments to the pension fund (in accordance with pension scheme regulations) and is treated as a cash flow item which reduces the pensions liability. This is also in line with the requirements of the Code.

Further information can be found in Hertfordshire County Council's Pension Fund's Annual Report which is available upon request from Hertfordshire County Council, Corporate Services, County Hall, Hertford, SG13 8DQ.

vii. Events after the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted where material to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

viii. Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Financial Guarantees

Commencing on 1 January 2009 the Council awarded a new 10 year contract for the Management of its Leisure Facilities and Swimming Pools. Under this contract the Council has given two guarantees in respect of pension liabilities and utility costs. The guarantee relating to pension costs relates to increases in employer contributions above 23.4%. Any increase will be in line with future actuarial valuations. Each 1% increase in contribution rate would result in a liability of approximately £3k per year.

The guarantee relating to utility costs relates to above inflationary increases in the tariffs payable. Each 1% increase would represent around £2.4k per year.

The Code includes a requirement for financial guarantees to be recognised at fair value and charged to the Comprehensive Income and Expenditure Statement (amortised over the life of the guarantee). The levels of liability assessed at March 2011 are regarded as non material and therefore the accounting requirement has not been followed in respect of these guarantees. The Council has determined to set aside a reserve against potential libilities under these guarantees as set out in Note 17 to the Notes to the Core Statements.

No other financial guarantees were identified in 2010/11

Soft Loans

The Code requires that a discounted interest rate be recognised as a reduction in the fair value of the asset. The Council loans falling within this category relate to the assisted car purchase scheme, the amount of which is considered immaterial.

viii. Financial Instruments - continued

Financial Assets

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market

- available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and receivables

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Available -for-Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council. Assets are maintained in the Balance Sheet at fair value. Values are based on quoted market prices.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/ loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets.

Any gains and losses that arise on the de-recognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

ix. Government grants and contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions are recognised as due to the Council when there is reasonable assurance that:

the Council will comply with the conditions attached to the payments, and

the grants or contributions will be received.

With the exception of Section 106 receipts amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been substantially satisfied. Section 106 receipts are credited to the Comprehensive Income and Expenditure Statement on receipt given that under current agreements any liability to repay will not arise for ten years. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Area Based Grant (ABG) and Revenue Support Grant(RSG)

These are general grants allocated by central government directly to local authorities as additional revenue funding. They are non-ringfenced and are credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

x. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council. In addition, the Council has agreed that all software will be treated as intangible assets.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation is not permitted to have an impact on the General Fund Balance. This is therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

xi. Investments

The majority of the Council's internally managed investments are money market deposits but investments placed with our External Fund Managers in money market instruments include Certificates of Deposit and Treasury Stock which are valued at fair value. (See Note 29)

xii. Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

xiii. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment (embedded leases) are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

xiii. Leases - continued

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease.

The Council as a Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Investment Properties) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

xiv. Minimum revenue provision

In accordance with current legislation the minimum revenue provision (MRP) for the redemption of debt is required to be calculated on a prudent basis having regard to guidelines set out for application of the prudential code. Following the disposal of the Council's Housing stock the calculated MRP is now nil.

xv. Overheads and support services

The costs of management and administration are allocated over all services as appropriate. This is in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2010/11 (BVACOP). The basis of allocation used for the main areas is outlined below:

Cost	Basis of allocation
Support Services	Actual time spent by staff
Administrative Buildings	Area occupied
Information Technology	Time spent/actual use

xvi. Property, Plant & Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Operational non specialised property – fair value based on existing use value. The multi-storey car parks but not surface car parks, and Hertford Theatre have been valued using the Existing Use Valuation method on the basis of income & expenditure, profit information.
- Operational specialised property – depreciated replacement cost (DRC).
- Community assets and Infrastructure – nominal value or historical cost.
- All other assets – depreciated historical cost.

In the event of a future disposal the market value at that time may realise more or less than the carrying value.

From 1 April 2010, the Council revalues the assets on a four year rolling basis (formerly five year rolling basis). Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

xvi. Property, Plant and Equipment - continued

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

The current asset values used in the accounts are based upon a certificate issued by the Council's Internal Asset & Valuation Manager, Martin H Shrosbree MRICS as at 31 March 2011. The certificate is based on both valuations undertaken by the Council's Manager as well as valuers engaged from Wilks Head Eve (MRICS) and reviewed by the Council's Manager. Property, plant and equipment are classified in the Balance Sheet in line with current Accounting Codes of Practice.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

All Property, Plant and Equipment, other than freehold land and Community Assets (with two exceptions being recreational facilities with a building element) are depreciated on a straight line basis over the period of the assets useful economic life. The following periods are used:

Freehold Land	No depreciation
Hostels	60 years
Other Council Buildings	20 to 60 years
Infrastructure	20 years
Equipment, Furniture and Fittings	5 to 10 years
Community Assets	No depreciation (30 years for exceptions)
Non operational assets	60 years
Enhancement to leased properties	10 to 25 years

Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Componentisation

In line with accounting requirements the Council will consider the identification of individual asset components on a prospective basis following either the enhancement of an asset or its revaluation. The Council has determined that it will adopt a de-minimis value of £1Million for individual assets with a de-minimis component percentage of 20% of the individual asset value.

xvi. Property, Plant and Equipment - continued

Disposals

When an asset is disposed of the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

xvii. Provision for bad debt

The value of receivables (debtors) shown on the balance sheet is adjusted for doubtful debts. The level of bad debt provision is reviewed annually. Uncollectable debts are written off against the provision.
The following methods are used:-

Trade Accounts Receivable	-	Age and collectability
Housing Benefit Overpayments	-	Age and collectability
National Non Domestic Rates	-	0.6% against the net debit due reviewed against sums written off and opening yearly balances
Council Tax	-	0.3% against the net debit due reviewed against sums written off and opening yearly balances
N N Domestic Rates costs	-	25% against arrears
Council Tax costs	-	20% against arrears

xviii. Reserves

Amounts appropriated to / from reserves are distinguished from service expenditure disclosed in the Statement of Accounts. Reserves include earmarked reserves set aside for specific policy purposes and balances which represent resources set aside for purposes such as general contingencies and cash flow management.

xix. Revenue expenditure funded from Capital under Statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

xx. Capital receipts

Capital Receipts arise from the sale of non-current assets (Property, Plant and Equipment and Investment Properties). Further to the introduction of the Prudential Capital Finance System on 1 April 2004, capital receipts are all deemed to be "usable" and are held within the Capital Receipts Reserve. Prior to this date, in accordance with Government legislation, a proportion of certain receipts had to be "set aside" and are retained within the Capital Adjustment Account as provision for the repayment of debt.

xxi. VAT

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenues & Customs and in most circumstances all VAT paid is recoverable from them. VAT has been included in the income and expenditure accounts only to the extent that it is irrecoverable.

2. Transition to IFRS

Reconciliation of net worth reported under previous GAAP to net worth under IFRS at the date of transition to IFRS (April 2009)

	UK GAAP	EFFECT OF TRANSITION TO IFRS							IFRS
	Reported - 31/03/2009	**Short-term accumulating compensated absences**	**Leases**	**Arrangement containing leases**	**Grants**	**Intangible Assets**	**Investment Properties**	**Cash and Cash Equivalents**	**Restated**
Note		1	2	3	4	5	6	7	
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Tangible Assets									
- Other land & Buildings	49,235								49,235
- Vehicles, plant & equipment	4,136			95					4,231
- Software	509					(509)			0
- Infrastructure assets	4,245								4,245
- Community assets	755								755
Investment Properties	11,951		(263)						11,688
Intangible assets	1					509			510
	70,832	-	(263)	95	-	-	-	-	70,664
Long Term Investments	8								8
Long Term Debtors									0
- Mortgages	47								47
- Finance Leases			160						160
LONG TERM ASSETS	70,887	-	(103)	95	-	-	-	-	70,879
Current Assets									
- Temporary Investments	77,929							(2,025)	75,904
- Debtors	6,182		1						6,183
- Cash and Cash Equivalents								2,025	2,025
CURRENT ASSETS	84,111	-	1	0	-	-	-	-	84,112
TOTAL ASSETS	154,998	-	(102)	95	-	-	-	-	154,991
Current Liabilities									
- Bank Overdraft	(934)								(934)
- Temporary Borrowing	(401)								(401)
- Creditors	(5,013)	(80)		(102)					(5,195)
CURRENT LIABILITIES	(6,348)	(80)	0	(102)	-	-	-	-	(6,530)
TOTAL ASSETS LESS CURRENT LIABILITIES	148,650	(80)	(102)	(7)	-	-	-	-	148,461
Provisions	(42)								(42)
Long Term Borrowing	(7,710)								(7,710)
Deferred Liabilities (finance lease liability)	(6,790)								(6,790)
Deferred Credits	(452)								(452)
Government/Other Grants Deferred	(3,956)				3,956				0
Liability related to Defined Benefit Pension Scheme	(17,942)								(17,942)
Capital Grants received in advance	-								0
TOTAL ASSETS LESS LIABILITIES	111,758	(80)	(102)	(7)	3,956	-	-	-	115,525
Usable Reserves:									
General Fund	3,854								3,854
Other Earmarked Reserves	4,103								4,103
Usable Capital Receipts Reserve	11,251								11,251
Capital Grants Unapplied	-				512				512
General Reserve	2,536								2,536
									0
Unusable Reserves:									0
Revaluation Reserve	6,656		(68)				(3,301)		3,287
Available for Sale Reserve	463								463
Pensions Reserve	(17,942)								(17,942)
Capital Adjustment Account	100,984		(195)	(7)	3,444		3,301		107,527
Capital receipts deferred	-		161						161
Collection Fund adj account	(147)								(147)
Short-term Accumulating Compensated Absences Account	-	(80)							(80)
TOTAL NET WORTH	**111,758**	**(80)**	**(102)**	**(7)**	**3,956**	**-**	**-**	**-**	**115,525**

2. Transition to IFRS - continued

Reconciliation of net worth reported under previous GAAP to net worth under IFRS at the end of the latest period presented in the most recent financial statements under previous GAAP (31 March 2010)

	UK GAAP	EFFECT OF TRANSITION TO IFRS						IFRS
	Reported - 31/03/2010	**Short-term accumulating compensated absences**	**Leases**	**Grants**	**Intangible Assets**	**Investment Properties**	**Cash and Cash Equivalents**	**Restated**
Note		1	2	4	5	6	7	
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Tangible Assets								
- Other land & Buildings	43,205							43,205
- Vehicles, plant & equipment	5,001							5,001
- Software	620				(620)			0
- Infrastructure assets	3,919							3,919
- Community assets	797							797
Investment Properties	8,702		(263)					8,439
Intangible assets	20				620			640
	62,264	-	(263)	-	-	-	-	62,001
Long Term Investments	8							8
Long Term Debtors	7,350		159					7,509
- Mortgages	27							27
- Finance Leases	-							0
LONG TERM ASSETS	69,649	-	(104)	-	-	-	-	69,545
Current Assets								
- Temporary Investments	73,278						(2,150)	71,128
- Debtors	6,399		1					6,400
- Cash and Cash Equivalents	-						2,150	2,150
CURRENT ASSETS	79,677	-	1	-	-	-	-	79,678
TOTAL ASSETS	149,326	-	(103)	-	-	-	-	149,223
Current Liabilities								
- Bank Overdraft	(2,538)							(2,538)
- Temporary Borrowing	-							0
- Creditors	(5,318)	(81)						(5,399)
CURRENT LIABILITIES	(7,856)	(81)	0	-	-	-	-	(7,937)
TOTAL ASSETS LESS CURRENT LIABILITIES	141,470	(81)	(103)	-	-	-	-	141,286
Provisions	(57)							(57)
Long Term Borrowing	(7,710)							(7,710)
Deferred Liabilities (finance lease liability)	(5,101)							(5,101)
Deferred Credits	(324)							(324)
Government/Other Grants Deferred	(4,231)			4,231				0
Liability related to Defined Benefit Pension Scheme	(42,068)							(42,068)
Capital Grants received in advance	-							0
TOTAL ASSETS LESS LIABILITIES	81,979	(81)	(103)	4,231	-	-	-	86,026
Usable Reserves:								
General Fund	3,854							3,854
Other Earmarked Reserves	3,698							3,698
Usable Capital Receipts Reserve	7,614							7,614
Capital Grants Unapplied	-			827				827
General Reserve	2,770							2,770
Unusable Reserves:								0
Revaluation Reserve	5,119		(68)			(1,941)		3,110
Available for Sale Reserve	0							0
Pensions Reserve	(42,068)							(42,068)
Capital Adjustment Account	101,023		(195)	3,404		1,941		106,173
Capital receipts deferred	-		160					160
Collection Fund adj account	(31)							(31)
Short-term Accumulating Compensated Absences Account	-	(81)						(81)
TOTAL NET WORTH	**81,979**	**(81)**	**(103)**	**4,231**	**-**	**-**	**-**	**86,026**

NOTES TO THE FINANCIAL STATEMENTS

2. Transition to IFRS - continued

Reconciliation of total comprehensive income and expenditure under IFRS at the end of the latest period presented in the most recent financial statements under previous GAAP (year ended 31 March 2010)

	UK GAAP	EFFECT OF TRANSITION TO IFRS					IFRS
	Reported - 31/03/2010	**Short-term accumulating compensated absences**	**Leases**	**Arrangement containing leases**	**Grants**	**Investment Properties**	**Restated**
Note		1	2	3	4	6	
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Gross expenditure, gross income and net expenditure of continuing operations							
Central Services to the Public	2,125	-	-	-	6	-	2,131
Cultural & Related Services	6,510	-	-	-	33	-	6,543
Environmental & Regulatory Services	7,303	1	-	(9)	131	-	7,426
Planning & Development Services	2,337	-	14	-	10	240	2,601
Highways and Transport Services	3,733	-	-	-	118	77	3,928
Other Housing Services	2,043	-	-	-	13	-	2,056
Corporate & Democratic Core	2,671	-	-	-	4	-	2,675
Non Distributed Costs	242	-	-	-		-	242
NET COST OF SERVICES	26,964	1	14	(9)	315	317	27,602
Other Operating Expenditure	14	-	-	-	-	(575)	(561)
Financing and Investment Income & Expenditure	(240)	-	(13)	2	-	258	7
Taxation and Non-Specific Grant Income	(20,792)	-	-	-	(590)	-	(21,382)
Deficit on Provision of Services	**5,946**	**1**	**1**	**(7)**	**(275)**	**0**	**5,666**
Deficit on revaluation of non current assets	79	-	-	-	-	-	79
Deficit on revaluation of available for sale financial assets	463	-	-	-	-	-	463
Actuarial losses on pension liability	23,291	-	-	-	-	-	23,291
Other Comprehensive Income and Expenditure	**23,833**	**-**	**-**	**-**	**-**	**-**	**23,833**
Total Comprehensive Income and Expenditure	**29,779**	**1**	**1**	**(7)**	**(275)**	**-**	**29,499**

2. Transition to IFRS - continued

NOTES

1. Short-term accumulating compensated absences

Short-term accumulating compensated absences refers to benefits that employees receive as part of their contract of employment, entitlement to which is built up as they provide services to the Authority. The most significant benefit covered by this heading is holiday pay.
Employees build up an entitlement to paid holidays as they work. Under the Code, the cost of providing holidays and similar benefits is required to be recognised when employees render service that increases their entitlement to future compensated absences. As a result, the Authority is required to accrue for any annual leave earned but not taken at 31 March each year. Under the previous accounting arrangements, no such accrual was required. The Government has issued regulations that mean local authorities are only required to fund holiday pay and similar benefits when they are used, rather than when employees earn the the benefits. Amounts are transferred to the Accumulating Absences Account until the benefits are used.

2. Leases

The Authority has one property lease where the accounting treatment has changed following the introduction of the Code, relating to Pinders Lodge. The lease term is 50 years from March 1997.
The lease was previously classified as an operating lease, but under the Code, the buildings element of the lease has been reclassified as a finance lease.

As a consequence of classifying the buildings element of the lease as a finance lease, the financial statements have been amended as follows:

- The Council has derecognised an asset (the building) and recognised a finance lease debtor.
- The operating lease income within Planning & Development services has been reduced by the amount that relates to the buildings element of the lease payments.
- The interest element of the lease payment in respect of the buildings element is credited to the Financing and Investment Income and Expenditure line in the Surplus or Deficit on the Provision of Services.

The net increase in the Deficit on the Provision of Services is removed by the transfer of the capital element of the operating lease repayments of £1k from the Deferred Capital Receipts Reserve, as per statutory guidance. This transfer is shown in the Movement in Reserves Statement.

3. Arrangements containing a lease

The Council has also identified an arrangement containing a lease relating to vehicles used in the Refuse and Recycling contract with Enterprise. Under the Code, the Council is seen as effectively leasing 16 vehicles from Enterprise. The lease term is for 7 years starting from August 2002. The vehicles are specialised in nature and the term is for the full expected life of the asset therefore the vehicles are now classified as a finance lease.
As a consequence of classifying the vehicles element of the contract as a finance lease, the financial statements have been amended as follows:

- The Council has recognised an asset (the vehicles) and a finance lease liability.
- The contract payments within Environmental and Regulatory Services has been reduced by the notional lease payments (principal and interest) relating to the new finance lease in respect of the vehicles.
- The interest element of the notional lease payments in respect of the vehicles is charged to the Financing and Investment Income and Expenditure line in the Surplus or Deficit on the Provision of Services. The principal element of the notional lease payments has been charged against the finance lease liability.
- A depreciation charge has been included within Environmental and Regulatory Services.
- The depreciation charge has been transferred from the General Fund to the Capital Adjustment Account. This transfer has been reflected in the Balance Sheets as at 1 April 2009 and 31 March 2010, and the adjustments that relate to 2009/10 are reported in the Movement in Reserves Statement for the year.

The net increase of £7k in the Deficit on the Provision of Services is removed by the transfer of the depreciation charge of £95k and the capital element of the lease payments of £102k to the Capital Adjustment Account. These transfers are shown in the Movement in Reserves Statement.

NOTES TO THE FINANCIAL STATEMENTS

2. Transition to IFRS - continued

4. Grants

Under the Code, grants and contributions for capital schemes are recognised as income when they become receivable. Previously, grants were held in a grants deferred account and recognised as income over the life of the assets which they were used to fund.

As a consequence of adopting the accounting policy required by the Code, the financial statements have been amended as follows:

- The balance on the Government/Other Grants Deferred Account at 31 March 2009 has been transferre either to the Capital Adjustment Account in the opening 1 April 2009 balance sheet (when conditions have been met and expenditure has been incurred at 31 March 2009) or to the Capital Grants Unapplied Account, when conditions have been met but expenditure not yet incurred as at 31 March 2009.

- Portions of government grants deferred were previously recognised as income in 2009/10; these have been removed from the Comprehensive Income and Expenditure Statement in the comparative figures.

- There were new grants received in 2009/10 where conditions had been met but no expenditure had been incurred as at 31 March 2010. Following the change in accounting policy, these grants have been recognised in full, and transferred to the Capital Grants Unapplied Account within the reserves section of th balance sheet. New grants received in 2009/10 where conditions had been met and expenditure incurred at 31 March 2010 have been transferred to the Capital Adjustment Account.

5. Intangible Assets

Following review of the provisions of the Code, the Authority has reclassified the carrying amount of Software included within tangible fixed assets to intangible assets, as it is deemed not to be an integral part of the hardware.

6. Investment Properties

Under the Code, gains or losses arising from a change in the fair value of investment properties should be recognised in Surplus or Deficit on the Provisions of Services. This is a change in accounting policy that requires Local Authorities to restate their opening balances appropriately.
As a consequence of adopting the new accounting policy required by the Code, the financial statements have been amended as follows:

- The balances on the Revaluation Reserve in respect of investment properties as at 1 April 2009 have been transferred to the Capital Adjustment Account.
- There has been no changes in the fair value of investment properties in 2009/10, thus no transitional adjustments are required for the 2009/10 accounts.

The Code also requires the rental income and direct expenditure on investment properties to be disclosed as part of Financing and Investment Income & Expenditure in the Comprehensive Income and Expenditure Statement. Previously, they were disclosed as part of the Net Cost of Services.

2. Transition to IFRS - continued

6. Investment Properties

Under the Code, gains or losses arising from the disposal of investment properties should be recognised in Financing and Investment Income & Expenditure rather than in Other Operating Expenditure in the Comprehensive Income and Expenditure Statement. This is a change in accounting policy that requires Local Authorities to restate their prior year balances appropriately.

As a consequence of adopting the accounting policy required by the Code, the financial statements have been amended as follows:

- The loss on disposal of investment properties has been reclassified from Other Operating Expenditure to the Financing & Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

- The gains in the Revaluation Reserve relating to investment properties that were disposed off have been reclassified to the Capital Adjustment Account, as under the Code, all gains on revaluation of investment properties are recognised initially in the Surplus or Deficit on Provision of Services and then reclassified to the Capital Adjustment Account in the Movement in Reserves Statement.

7. Cash and cash equivalents

The Code requires local Authorities to disclose cash and cash equivalents on the face of the Balance Sheet. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Reclassifying items to cash equivalents following IAS 7 is a change of accounting policy that requires councils to restate their opening balances in respect of cash and cash equivalents.

As a consequence of adopting the new accounting policy required by the Code, a portion of the balance on the Temporary Investments account as at 31 March 2009 and 31 March 2010 which meets the definition of a cash equivalent has been reclassified to Cash and Cash Equivalents.

3. Assumptions made about the future and other major sources of estimation uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account professional advice (e.g. actuarial advice), historical experience, current trends and other relevant information.

Items included within the Council's Balance Sheet at 31.3.11 for which there is a risk of material adjustment in the forthcoming year are:

- Pension Liability - actuarial assumptions, fund returns
- Property, Plany and Equipment - valuations, useful lives
- Arrears - bad debt provision

Assumptions regarding these items are set out within the relevant accounting note(s) for the item.

4. Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure.

	Usable Reserves			
2009/10 comparative figures	**General Fund balance**	**Capital Receipts Reserve**	**Capital Grants Unapplied**	**Movement in Unusable Reserves**
	£000	**£000**	**£000**	**£000**
Adjustments involving the Capital Adjustment Account:				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:				
Charges for depreciation of non current assets	2,096			(2,096)
Charges for depreciation refuse vehicles	97			(97)
Revaluation / Impairment on Property Plant and Equipment	5,480			(5,480)
Amortisation of intangible assets	328			(328)
Capital grants and contributions applied	(272)			272
Revenue expenditure funded from capital under statute	1,223			(1,223)
Revenue grants written down to the Capital Adjustment Account	(294)			294
Disposal of non current assets	(2,364)			2,364
Disposal of investment properties	1,864			(1,864)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory adjustment relating to capital element of principal payment for finance lease	(102)			102
Capital expenditure charged against the General Fund	(25)			25
Adjustments involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(317)		317	
Application of grants to capital financing transferred to the Capital Adjustment Account			(2)	2
Adjustments involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(2,956)	2,956		
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	15	(15)		
Adjustments involving the Deferred Capital Receipts Reserve				
Statutory adjustment relating to capital element of principal payment for finance lease	1			(1)
Adjustments involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 27)	2,809			(2,809)
Employer's pensions contributions and direct payments to pensioners payable in the year	(1,974)			1,974
Adjustments involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(116)			116
Adjustment involving the Accumulated Absences Account				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	1			(1)
Total Adjustments	**5,494**	**2,941**	**315**	**(8,750)**

4. Adjustments between Accounting Basis and Funding Basis under Regulations

2010/11	Usable Reserves			
	General Fund balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000
Adjustments involving the Capital Adjustment Account:				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:				
Charges for depreciation of non current assets	2,618			(2,618)
Revaluation / Impairment on Property Plant and Equipment	4,363			(4,363)
Movements in the market value of Investment Properties	(1,414)			1,414
Amortisation of intangible assets	296			(296)
Capital grants and contributions applied	(160)			160
Revenue expenditure funded from capital under statute	1,404			(1,404)
Revenue grants written down to the Capital Adjustment Account	(321)			321
Disposal of non current assets	450			(450)
Disposal of investment properties	90			(90)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Capital expenditure charged against the General Fund	(25)			25
Adjustments involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(48)		48	
Application of grants to capital financing transferred to the Capital Adjustment Account			(221)	221
Adjustments involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(1,294)	1,294		
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	5	(5)		
Adjustments involving the Deferred Capital Receipts Reserve:				
Statutory adjustment relating to capital element of principal payment for finance lease	1			(1)
Adjustments involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 27)	(6,838)			6,838
Employer's pensions contributions and direct payments to pensioners payable in the year	(1,979)			1,979
Adjustments involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(93)			93
Adjustment involving the Accumulated Absences Account				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(1)			1
Total Adjustments	(2,946)	1,289	(173)	1,830

5. Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund in earmarked reserves to provide funding for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2010/11.

	Balance 1 April 2009 £'000	Transfers Out 2009/10 £'000	Transfers In 2009/10 £'000	Balance 31 March 2010 £'000	Transfers Out 2010/11 £'000	Transfers In 2010/11 £'000	Balance 31 March 2011 £'000
Interest equalisation reserve	(2,204)	1,019	-	(1,185)	1,185	-	**0**
Insurance fund	(34)	24	-	(10)	-	-	**(10)**
Emergency Planning Reserve	(37)	-	-	(37)	-	-	**(37)**
VAT Partial Exemption Reserve	(145)	-	-	(145)	-	-	**(145)**
Service Improvement Fund	(899)	104	-	(795)	127	-	**(668)**
LDF/Green Belt Reserve	(142)	-	(221)	(363)	-	(150)	**(513)**
Housing Condition Survey Reserve	(28)	60	(55)	(23)	-	(14)	**(37)**
Council Elections Reserve	(25)	-	(25)	(50)	-	(25)	**(75)**
LABGI Reserve	(461)	145	-	(316)	182	-	**(134)**
AWC Reserve	(128)	128	-	-	-	-	-
Sinking fund - Leisure	0	-	(60)	(60)	-	(60)	**(120)**
Utilities / Pension Reserve							
Restructure fund	0	-	(33)	(33)	-	-	**(33)**
Legal Fees Reserve	0	-	(31)	(31)	19	-	**(12)**
Performance Reward Grant Reserve	0	-	(217)	(217)	178	(28)	**(67)**
Pension Strain Costs Reserve	0	-	(158)	(158)	79	(21)	**(100)**
Waste Recycling Reserve	0	-	(275)	(275)	-	-	**(275)**
Footbridge Reserve	0	-	-	-	-	(50)	**(50)**
Cost of Change Reserve		-	-	-	-	(400)	**(400)**
Total	**(4,103)**	**1,480**	**(1,075)**	**(3,698)**	**1,770**	**(748)**	**(2,676)**

Interest Equalisation Reserve	This reserve was established at 31 March 2006 to assist the Council in managing the financial implications of adverse interest rate fluctuations. The balance on the reserve has been fully applied in 2010/11 in line with a Council decision.
Insurance Fund	This fund has been established to support the Council's insurance and risk management process and funding of small claims arising due to uninsured losses.
Emergency Planning Reserve	This reserve has been set up in order to facilitate arrangements in the future and support the work of an Emergency Planning Officer Group that has been established within the Council.
VAT Partial Exemption Reserve	New rules were introduced from 1 April 2007 relating to the provisions which allow Local Authorities to recover exempt input tax. The position has increased the possibility of the Council being unable to recover its exempt input tax in full in certain circumstances. To enable the Council to meet the additional cost of any unrecoverable VAT which cannot be budgeted for precisely, a VAT (Partial Exemption) Revenue Reserve was established at 31 March 1999 in the sum of just over £145,000.
Service Improvement Fund	This reserve has been established as a means of financing "one-off" initiatives that will deliver efficiencies and service improvements in the medium term.

During 2008/09 the Council established the following reserves in order to smooth the incidence of expenditure over the period of the Council's Medium Term Financial Plan (MTFP);

Local Development Framework, Stansted G2 and Green Belt review Reserve
Housing Condition Survey Reserve
Council Elections Reserve

Planned appropriations have been made to each of these reserves in 2010/11.

5. Transfers to/from Earmarked Reserves - continued

Local Authority Business Growth Incentives (LABGI) Reserve	In line with the Council's MTFP appropriations have been made in 2010/11 to support the economic development service and general Council Tax.
Sinking Fund - Leisure Utilities and Pension	Further to the Council awarding a new leisure contract to Sports and Leisure Management from January 2009 the Council has provided guarantees in respect of utilities and employers pension costs. The reserve will be used to meet any calls on the Council to make payments under the guarantees in the event that either utility prices and/or employers pension contributions (on a cash rather than IAS19 basis) increase by more than general indexation as provided for under contract
Restructure Fund	A small reserve of £33k has been created in order to assist the Council in meeting any future requirements in support of organisational structural change
Legal Fees Reserve	The reserve was established at 1 April 09 in order to assist in meeting legal costs including tribunals as well as enabling the provision of staff cover for maternity leave in the legal section. A further £19k has been applied in 2010/11.
Performance Reward Grant Reserve	The council received revenue grant funding in respect of the Local Area Agreement (Performance Reward Grant) totalling £217k in 2009/10. In line with the planned use of the funding stream to support both the Council Tax and schemes by the Local Strategic Partnership, a total of £150k has been applied in 2010/11.
Pension Strain Costs Reserve	In line with Council decisions relating to flexible and early retirements an earmarked reserve was at 31 March 2010. This balance on the reserve represents the outstanding pension strain costs arising from decisions taken prior to 31 March 2011.
Waste Recycling Reserve	Further to the receipt of additional income of £275k under the county wide funding formula for waste recycling the Council determined to establish an earmarked reserve to assist with future initiatives in respect of its waste and recycling strategies. Release of the reserve is dependant on the Council's acceptance of a worked up business case for any initiative further to the re-letting of the waste collection contract
Footbridge Reserve	The Council's MTFP includes setting aside £50k a year from 2010/11 to 2012/13 in order to meet any potential maintenance costs or liabilities that may arise relating to the footbridge over the river Stort.

6. Property, Plant & Equipment

Movements in fixed assets during the year are as follows:-

Cost or Valuation	**As at 01/04/2010**	**Additions**	**Disposals**	**Reclassification**	**Revaluations**	**Total as at 31/03/2011**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Other Land & Buildings	43,582	2,854	(458)	-	25	46,003
Vehicles, Plant, furniture & Equip.	11,329	816	-	-	-	12,145
Infrastructure	7,507	63	-	-	-	7,570
Community Assets	815	403	-	-	-	1,218
	63,233	4,136	(458)	0	25	66,936

Depreciation & Impairment	**As at 01/04/2010**	**Charge for Year**	**Disposals**	**Revaluations**	**Total as at 31/03/2011**	**Balance Sheet as at 31/03/11**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Other Land & Buildings	377	1,296	(8)	4,552	6,217	39,786
Vehicles, Plant, furniture & Equip.	6,328	933	-	-	7,261	4,884
Infrastructure	3,588	380	-	-	3,968	3,602
Community Assets	18	7	-	-	25	1,193
	10,311	2,616	(8)	4,552	17,471	49,465

Impairment charge - Hertford Theatre

In compliance with IFRS, the method of valuation was amended from the previous depreciated replacement cost method to existing use value at March 2011. These different bases of valuation produce significantly different outcomes resulting in an impairment charge of £4.2m in the year. Existing Use Value reflects future operational income and expenditure rather than the one off cost of reconstruction on a like for like basis, and IFRS requires that Depreciated Replacement Cost should only be used as a valuation of last resort.
The carrying value of £293k is based on independent income projections for the facility from ticket sales.
The Council spent £947k capital on the theatre in 2010/11. The business case for that investment considered both the social and economic benefits of the scheme and the direct financial benefits from the projected reduction in annual operating subsidy equating to approximately £740k over the next ten years. Sensitivity analysis as part of the business case indicated a 12 to 16 year breakeven period based on NPV. The reduction in subsidy has a long term revenue benefit to the Council but that revenue benefit is necessarily excluded from the carrying value of the asset under the existing use methodology.

Reconciliation of Additions in the year to Capital Spend

	2010/11
	£000
Additions in the year (as above)	4,136
Intangible assets	369
	4,505
plus REFCUS (not included in note 6)	1,404
Total Capital Spend as per Note 25	5,909

7. Investment Properties

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

	2010/11 £000	2009/10 £000
Rental income from investment property	(549)	(642)
Direct operating expenses arising from investment property	353	325
Net gain	(196)	(317)

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct, enhance or develop investment property. In some cases the Council has repairing obligations which are met through revenue expenditure.

The following table summarises the movement in the fair value of investment properties over the year:

	2010/11 £000	2009/10 £000
Balance at start of the year	8,439	11,688
Additions:		
Subsequent expenditure	-	16
Disposals	(90)	(3,265)
Net gains/losses from fair value adjustments	1414	-
Balance at end of the year	9,763	8,439

8. Intangible Assets

The Authority accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Authority. The useful life assigned to the major software applications used by the Authority is 5 years.

The movement on Intangible Asset balances during the year is as follows:

	2010/11			2009/10		
	Software £000	Other intangible assets £000	Total £000	Software £000	Other intangible assets £000	Total £000
Balance at start of year:						
• Gross carrying amounts	2,238	21	2,259	1,799	2	1,801
• Accumulated amortisation	(1,618)	(1)	(1,619)	(1,290)	(1)	(1,291)
Net carrying amount at start of year	620	20	640	509	1	510
Additions:						
• Purchases	368	-	368	439	19	458
Amortisation for the period	(291)	(5)	(296)	(328)	-	(328)
Net carrying amount at end of year	697	15	712	620	20	640
Comprising:						
• Gross carrying amounts	2,606	21	2,627	2,238	21	2,259
• Accumulated amortisation	(1,909)	(6)	(1,915)	(1,618)	(1)	(1,619)
	697	15	712	620	20	640

9. Financial Instruments Balances

Accounting regulations require the 'financial instruments' (investment, lending and borrowing of the Council) shown in the Balance Sheet to be further analysed into various defined categories. The investments, lending & borrowing disclosed in the Balance Sheet are made up of the following categories of ' financial instruments'

	Long Term			Current		
	31 March '11 £000	31 March '10 £000	01 April '09 £000	31 March '11 £000	31 March '10 £000	01 April '09 £000
Borrowing						
Financial Liabilities at amortised cost	7,932	12,811	7,710	10,822	6,685	6,363
Total Borrowing	**7,932**	**12,811**	**7,710**	**10,822**	**6,685**	**6,363**
Investments						
Loans and Receivables	186	7,544	215	14,861	6,821	12,367
Available for Sale Financial Assets	-	-	-	65,867	70,062	68,309
Total Investments	**186**	**7,544**	**215**	**80,728**	**76,883**	**80,676**

See also Notes 29 and 30 to the Core Statements. (Investments and Borrowings)

Available for Sale Reserve

For financial instruments, there is a reserve to help manage the accounting requirements, the Available-for-Sale Financial Instruments Reserve. This records unrealised revaluation gains arising from holding available-for-sale investments and any unrealised losses that have not arisen from impairment of the assets.

The table below sets out the transactions for the year

	2010/11 £000
Balance brought forward	-
Net unrealised gain on investments	23
Realised gain to Revenue	-
Balance carried forward	23

See also Note 17, page 38.

10. Financial Instruments Gains / Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Account in relation to financial instruments are made up as follows:

	Financial Liabilities	Financial Assets		
2010/11	**Liabilities measured at amortised cost**	**Loans and Receivables**	**Available for Sale Assets**	**Total**
	£000	**£000**	**£000**	**£000**
Interest Expense	(661)	-	-	(661)
Realised losses	-	-	-	0
Interest Payable and Similar Charges	(661)	**0**	**0**	(661)
Interest Income	-	42	368	410
Realised Gains	-	-	461	461
Interest and Investment Income	**0**	**42**	**829**	**871**
Gains on revaluation	-	-	23	23
Impairments taken to I & E	-	-	-	0
Surplus arising on revaluation of financial assets	**0**	**0**	**23**	**23**
Net Gain / (Loss) for year	(661)	**42**	**852**	**233**

	Financial Liabilities	Financial Assets		
2009/10	**Liabilities measured at amortised cost**	**Loans and Receivables**	**Available for Sale Assets**	**Total**
	£000	**£000**	**£000**	**£000**
Interest Expense	(681)	-	-	(681)
Realised losses	-	-	-	0
Interest Payable and Similar Charges	(681)	**0**	**0**	(681)
Interest Income	-	130	502	632
Realised Gains	-	-	1,862	1,862
Interest and Investment Income	**0**	**130**	**2,364**	**2,494**
Gains on revaluation	-	-	-	0
Impairments taken to I & E	-	-	-	0
Loss arising on revaluation of financial assets	**0**	**0**	**0**	**0**
Net Gain / (Loss) for year	(681)	**130**	**2,364**	**1,813**

11. Fair Value of Assets and Liabilities carried at Amortised Cost

Financial assets (represented by lending and receivables) and financial liabilities (represented by borrowings) are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instrument, using the following assumptions:

- PWLB has provided the Fair Value Calculation for their loans.
- No early repayment or impairment is recognised.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount
- where the instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value.

The fair values are calculated as follows:

	31st March 2011		31st March 2010		1st April 2009	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Financial Liabilities	18,754	22,445	19,496	22,965	14,073	18,352

Fair value is more than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans at the Balance Sheet date. The commitment to pay interest above current market rates increases the amount that the Council would have to pay if the lender requested or agreed to early repayment of the loans.

	31st March 2011		31st March 2010		1st April 2009	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Loans and Receivables *	14,001	14,106	13,292	13,189	11,594	11,764

* Excludes Fund Managers cash included within Note 9.

The fair value is greater than the carrying amount because the Council's long term debtors includes a lease debtor where the discount factor increases the value of the payment to that at balance sheet date.

Also see notes 29 and 30 to the Core Statements. (Investments and Borrowings)

12. Debtors

Short Term Debtors	31 March '11 £000	31 March '10 £000	01 April '09 £000
Central government bodies	1,278	2,362	1,965
Other local authorities	448	939	1,678
Bodies external to general government (ie all other bodies)	11,434	3,099	2,540
	13,160	**6,400**	**6,183**

Long Term Debtors	31 March '11 £000	31 March '10 £000	01 April '09 £000
Bodies external to general government (ie all other bodies)	178	7,536	207
	178	**7,536**	**207**

13. Cash and Cash Equivalents

	31 March '11 £000	31 March '10 £000	01 April '09 £000
Short-term deposits with banks	3,033	2,150	2,025
Total Cash and Cash Equivalents	**3,033**	**2,150**	**2,025**

14. Creditors

Short Term Creditors	31 March '11 £000	31 March '10 £000	01 April '09 £000
Central government bodies	1,208	1,366	314
Other local authorities	205	207	211
Bodies external to general government (ie all other bodies)	8,675	3,826	4,670
	10,088	**5,399**	**5,195**

Long Term Creditors	31 March '11 £000	31 March '10 £000	01 April '09 £000
Bodies external to general government (ie all other bodies)	222	5,101	6,790
	222	**5,101**	**6,790**

Deferred liabilities

The deferred liability of £5.101m at 31 March 2010 consists of a £5m deferred premium (including dilapidation compensation) in respect of the Council's surrender of the Causeway Lease and £101k liability in respect of a rent accrual for the Causeway Car Park.

At 31 March 2010 this deferred liability was offset by a long term debtor representing deferred consideration on disposal of the Causeway.

At 31 March 2011 both the liability and debtor relating to this transaction are included within short term creditors/debtors.

15. Provisions

Proper provision has been made for various liabilities which will be incurred but for which it is uncertain as to the amounts or the dates on which they arise. The provisions required cover a range of activities the most significant being amounts in respect of assisted car purchase.

	Other Provisions £000	Total £000
Balance at 1 April 2010	57	57
Additional provisions made in 2010/11	9	9
Amounts used in 2010/11	(5)	(5)
Balance at 31 March 2011	61	61

16. Usable Reserves

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement, Note 4 Adjustments between accounting basis and funding basis under regulations and Note 5 Transfers to/from Earmarked Reserves.

17. Unusable Reserves

	31 March '11 £000	31 March '10 £000	01 April '09 £000
Revaluation Reserve	2,838	3,110	3,287
Available for Sale Financial Instruments Reserve	23	-	463
Capital Adjustment Account	104,384	106,173	107,527
Deferred Capital Receipts Reserve	159	160	161
Pensions Reserve	(22,093)	(42,068)	(17,942)
Collection Fund Adjustment Account	62	(31)	(147)
Accumulated Absences Account	(80)	(81)	(80)
Total Unusable Reserves	**85,293**	**67,263**	**93,269**

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment and Intangible Assets. The balance is reduced when assets with accumulated gains are:
• revalued downwards or impaired and the gains are lost
• used in the provision of services and the gains are consumed through depreciation, or
• disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

	2010/11 £000	2010/11 £000	2009/10 £000
Balance at 1 April		3,110	3,287
Upward revaluation of assets	25		299
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(214)		(379)
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		(189)	(80)
Difference between fair value depreciation and historical cost depreciation		(83)	(97)
Balance at 31 March		2,838	3,110

17. Unusable Reserves - continued

Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the Council arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are revalued downwards or impaired and the gains are lost or disposed of and the gains are realised.

	2010/11 £000	2009/10 £000
Balance at 1 April	-	463
Upward revaluation of investments	23	-
Accumulated gains on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of Other Investment Income	-	(463)
Balance at 31 March	23	0

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donat assets that have yet to be consumed by the Council. The Account also contains revaluation gains accumulatec on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to h such gains. Note 4 provides details of the source of all transactions posted to the Account, apart from those involving the Revaluation Reserve.

	2010/11 £000	2010/11 £000	2009/10 £000
Balance at 1 April		106,173	107,527
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:			
· Charges for depreciation of non current assets	(2,618)		(2,193)
· Charges for depreciation on revalued assets	84		97
· Revaluation/Impairment on Property, Plant and Equipment	(4,363)		(5,480)
· Amortisation of intangible assets	(296)		(328)
· Revenue expenditure funded from capital under statute	(1,404)		(1,223)
· Revenue grants written down to the Capital Adjustment Account	321		294
· Disposal of property, plant and equipment	(450)		2,364
· Disposal of investment properties	(90)		(1,864)
		(8,816)	(8,333)
Capital financing applied in the year:			
· Use of the Capital Receipts Reserve to finance new capital expenditure	5,182		6,578
· Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	160		272
· Application of grants to capital financing from the Capital Grants	221		2
· Statutory adjustment for the capital element of finance lease repayments - Refuse trucks	-		102
· Capital expenditure charged against the General Fund	25		25
		5,588	6,979
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		1,414	0
Revaluation of Investment Properties		25	0
Balance at 31 March		104,384	106,173

17. Unusable Reserves - continued

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	2010/11 £000	2009/10 £000
Balance at 1 April	(42,068)	(17,942)
Actuarial gains or (losses) on pensions assets and liabilities	11,158	(23,291)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	6,838	(2,809)
Employer's pensions contributions and direct payments to pensioners payable in the year	1,979	1,974
Balance at 31 March	(22,093)	(42,068)

Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

	2010/11 £000	2009/10 £000
Balance at 1 April	160	161
Transfer to the General Fund for the capital element of finance lease payments	(1)	(1)
Balance at 31 March	159	160

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

	2010/11 £000	2009/10 £000
Balance at 1 April	(31)	(147)
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	93	116
Balance at 31 March	62	(31)

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

	2010/11		2009/10
	£000	£000	£000
Balance at 1 April		(81)	(80)
Settlement or cancellation of accrual made at the end of the preceding year	81		80
Amounts accrued at the end of the current year	(80)		(81)
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		1	(1)
Balance at 31 March		(80)	(81)

18. Amount reported for Resource Allocation Decisions

The income and expenditure of the Authority's principal (directorates) recorded in the budget reports for the year is as follows:

Services Income & Expenditure 2010/11	**Revenues & Benefits**	**Other Internal Services**	**Planning & Building Control**	**Other Neighbourhood Services**	**Recycling**	**Car Parking**	**Other Customer & Community**	**Other**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Fees, charges and other service income	(248)	(521)	(1,376)	(449)	(1,060)	(4,162)	(2,004)	(12)	(9,832)
Government grants	(35,762)	(331)	(17)	(571)	(730)	(212)	(270)	0	(37,893)
Total Income	**(36,010)**	**(852)**	**(1,393)**	**(1,020)**	**(1,790)**	**(4,374)**	**(2,274)**	**(12)**	**(47,725)**
Employee expenses	1,469	3,616	2,114	1,840	0	0	2,869	578	12,486
Other service expenses	34,808	2,979	398	819	2,025	2,647	8,962	86	52,724
Support service recharges	0	(161)	0	(25)	0	0	0	33	(153)
Depreciation, amortisation & Impairment	73	599	95	1,237	170	1,178	5,322	19	8,693
Total Expenditure	**36,350**	**7,033**	**2,607**	**3,871**	**2,195**	**3,825**	**17,153**	**716**	**73,750**
Net Expenditure	**340**	**6,181**	**1,214**	**2,851**	**405**	**(549)**	**14,879**	**704**	**26,025**

Services Income & Expenditure 2009/10 Comparative Figures	**Revenues & Benefits**	**Other Internal Services**	**Planning & Building Control**	**Other Neighbourhood Services**	**Recycling**	**Car Parking**	**Other Customer & Community**	**Other**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Fees, charges and other service income	(248)	(537)	(1,203)	(562)	(1,327)	(4,275)	(2,355)	(7)	(10,514)
Government grants	(33,868)	(278)	(408)	(467)	0	0	(71)	0	(35,092)
Total Income	**(34,116)**	**(815)**	**(1,611)**	**(1,029)**	**(1,327)**	**(4,275)**	**(2,426)**	**(7)**	**(45,606)**
Employee expenses	1,389	3,558	1,959	1,786	0	0	2,717	604	12,013
Other service expenses	32,943	3,173	499	992	2,013	2,265	9,832	113	51,830
Support service recharges	0	(132)	0	0	0	0	0	32	(100)
Depreciation, amortisation & Impairment	49	584	110	1,035	141	3,911	3,374	19	9,223
Total Expenditure	**34,381**	**7,183**	**2,568**	**3,813**	**2,154**	**6,176**	**15,923**	**768**	**72,966**
Net Expenditure	**265**	**6,368**	**957**	**2,784**	**827**	**1,901**	**13,497**	**761**	**27,360**

Reconciliation of Service Income and Expenditure to cost of Services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of Service income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

	2010/11 £000	**2009/10 £000**
Net expenditure in the Service Analysis	26,025	27,360
Net expenditure of services and support services not included in the analysis	-	-
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	(9,728)	242
Amounts included in the analysis not included in the Comprehensive Income and Expenditure Statement	-	-
Cost of Services in Comprehensive Income and Expenditure Statement	**16,297**	**27,602**

18. Amount reported for Resource Allocation Decisions - continued

This reconciliation shows how the figures in the analysis of service income and expenditure relate to a su analysis of the surplus or Deficit on the Provision of Services included in the Comprehensive Income anc Expenditure Statement.

2010/11	Service Analysis	Amounts not reported to Management	Net Cost of Services	Corporate amounts	Total
	£000	£000	£000	£000	£000
Fees, charges and other service income	(9,832)	-	(9,832)	-	(9,832)
Interest and Investment income	-	-	-	(1,420)	(1,420)
Income from Council Tax	-	-	-	(12,787)	(12,787)
Government grants and contributions	(37,893)	-	(37,893)	(8,378)	(46,271)
Total Income	**(47,725)**	**0**	**(47,725)**	**(22,585)**	**(70,310)**
Employee expenses	12,486	(9,728)	2,758	1,007	3,765
Other service expenses	52,724	-	52,724	353	53,077
Support Service recharges	(153)	-	(153)	-	(153)
Depreciation, amortisation and impairment	8,693	-	8,693	-	8,693
Interest payments	-	-	-	661	661
Precepts and Levies	-	-	-	3,514	3,514
Payments to Housing Capital Receipts Pool	-	-	-	5	5
Changes in value of Investment Properties	-	-	-	(1,414)	(1,414)
Gain or loss on disposal of fixed assets	-	-	-	(754)	(754)
Total Expenditure	**73,750**	**(9,728)**	**64,022**	**3,372**	**67,394**
Surplus or deficit on the provision of services	**26,025**	**(9,728)**	**16,297**	**(19,213)**	**(2,916)**

2009/10 comparative figures	Service Analysis	Amounts not reported to Management	Net Cost of Services	Corporate amounts	Total
	£000	£000	£000	£000	£000
Fees, charges and other service income	(10,514)	-	(10,514)	-	(10,514)
Interest and Investment income	-	-	-	(3,136)	(3,136)
Income from Council Tax	-	-	-	(12,411)	(12,411)
Government grants and contributions	(35,092)	-	(35,092)	(8,971)	(44,063)
Total Income	**(45,606)**	**0**	**(45,606)**	**(24,518)**	**(70,124)**
Employee expenses	12,013	242	12,255	1,562	13,817
Other service expenses	51,830	-	51,830	325	52,155
Support Service recharges	(100)	-	(100)	-	(100)
Depreciation, amortisation and impairment	9,223	-	9,223	-	9,223
Interest payments	-	-	-	681	681
Precepts and Levies	-	-	-	3,454	3,454
Payments to Housing Capital Receipts Pool	-	-	-	15	15
Gain or loss on disposal of fixed assets	-	-	-	(3,455)	(3,455)
Total Expenditure	**72,966**	**242**	**73,208**	**2,582**	**75,790**
Surplus or deficit on the provision of services	**27,360**	**242**	**27,602**	**(21,936)**	**5,666**

19. Members Allowances

The total payments made to elected Members of East Herts Council, under its Members' Allowance Scheme for the year ending 31 March, was as follows:

	2010/11 £000	2009/10 £000
Basic Allowances	235	250
Special Responsibility Allowances	149	166
Travel and Subsistence expenses	11	15
	395	431

A full disclosure of payments is available on the Council's website.

20. Officer Emoluments

The number of employees, including senior officers, whose remuneration, was £50,000 or more in bands of £5,000 were:-

Remuneration Band	Number of Employees 2010/11 Total	2010/11 Left During Year	2009/10 Total	2009/10 Left During Year
£50,000 to £54,999	2	-	2	-
£55,000 to £59,999	5	-	3	-
£60,000 to £64,999	6	1	8	-
£65,000 to £69,999	1	-	-	-
£70,000 to £74,999	-	-	-	-
£75,000 to £79,999	1	-	1	-
£80,000 to £84,999	1	-	1	-
£85,000 to £89,999	-	-	-	-
£90,000 to £94,999	1		2	1
£95,000 to £99,999	-	-	-	-
£100,000 to £104,999	2	-	1	-
£105,000 to £109,999	-	-	-	-
£110,000 to £114,999	-	-	-	
£115,000 to £119,999	-	-	-	-
£120,000 to £124,999	-	-	-	-
£125,000 to £129,999	-	-	-	-
£130,000 to £134,999	-	-	1	-

21. Senior Officer Remuneration

An additional disclosure is required for Senior Officer's Remuneration (the Chief Executive and those reporting directly to the Chief Executive) included in Note 20, whose salary is more than £50,000 per year:-

Post Holder	Salary (inc expense allowance)	Benefits in Kind	Total Remuneration excluding pension contributions	Pension Contributions	Total Remuneration including pension contributions
	£	£	£	£	£
2010/11					
Chief Executive	98,918	2,102	101,020	54,916 *	155,936
Director of Neighbourhood Services	85,365	5,909	91,274	19,256	110,530
Director of Customer and Community	78,670	3,061	81,731	16,249	97,980
Programme Director	79,260	-	79,260	16,385	95,645
Director of Internal Services	103,508	-	103,508	21,800	125,308
2009/10					
Chief Executive	130,930	1,362	132,292	61,986 *	194,278
Director of Neighbourhood Services	84,568	6,582	91,150	19,421	110,571
Director of Customer and Community	78,132	1,902	80,034	16,249	96,283
Programme Director	78,011	-	78,011	16,249	94,260
Director of Internal Services	103,477	-	103,477	21,800	125,277

* This includes £33k in respect of pension strain costs arising from the exercise of flexible retirement giving rise to future salary savings

22. External Audit Costs

This note discloses the amounts that East Herts Council has paid to its external auditors for work carried out in performing statutory functions and in providing any additional services.

In 2010/11 East Herts District Council incurred the following fees relating to external audit and inspection:

	2010/11 £000	2009/10 £000
Fees payable to Grant Thornton with regard to external audit services carried out by the appointed auditor	132	154
Fees payable to the Audit Commission in respect of statutory inspection	(9)	9
Fees payable to Grant Thornton for the certification of grant claims and returns	21	23
Fees payable to the Audit Commission in respect of the National Fraud Initiative	1	1
	145	187

23. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2010/11:

	2010/11 £000	2009/10 £000
Credited to Taxation and Non Specific Grant Income		
Council Tax	12,787	12,411
Non-Domestic Rates	7,144	6,614
Revenue Support Grant	1,037	1,527
Area Based Grant	37	23
Performance Reward Grant	-	434
Big Lottery - capital grant	-	123
Other Capital Grants	160	12
HCC Blue Box contribution	-	151
Developer Contributions	-	87
	21,165	21,382
Credited to Services		
Grants		
DWP	35,753	33,847
DCLG	438	792
Environment Agency	223	190
LAA	80	99
DCMS	39	63
DEFRA	8	24
Home Office	5	12
Go East	49	71
EEDA	116	-
	36,711	35,098
Other Contributions		
Contributions from Other Authorities	1,347	973
Income from Other Bodies	732	811
	2,079	1,784

The Council has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that will require the monies to be returned to the funding body if not used for the purpose provided. The balances at year end are as follows:

Capital Grants Receipts in Advance	2010/11 £000	2009/10 £000
Performance Reward Grant	31	-
Other grant	7	-
	38	-

24. Related Party Transactions

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made.

Related parties to this authority would include :

central government; local authorities and other bodies precepting or levying demands on the Council Tax; its members; its chief officers; and its pension fund.

Members of the close family, or the same household of an individual identified as a related party are also presumed to be related parties.

All significant material transactions with related parties, such as government grants, parish precepts, precepts, pension fund contributions etc, have been disclosed in the Comprehensive Income and Expenditure Statement, page 7.

A member of the Council currently holds the position of Vice Chairman of the trustees of Hertford Museum. The Council gave a grant of £10,000 to the Museum in 2010/11.

The Hertfordshire County Council are a related party in respect of various transactions including pensions contributions and precepts. Additionally they act as the "accountable body" for the Hertfordshire Local Area agreement.

Shown in the Balance Sheet are totals for creditors and debtors which represent amounts due to or from related parties.

The principal year end balances with related parties included in these totals are shown on page 36 within notes 12 & 14.

25. Capital Expenditure and Capital Financing

In 2010/11 capital expenditure of £5,908,544 was incurred as follows:

	£000
Housing	214
Renewal and Other Housing Grants	848
Information Technology	650
Community Grants	209
Leisure Centres and Swimming Pools	140
Other Leisure & Cultural Projects	1,507
Planning & Town Centre Schemes	253
Recycling & Environment	1,951
Other	137
Total	**5,909**

The capital expenditure programme is financed as follows:

FINANCED:	£000	CAPITAL EXPENDITURE:	£000
Government Grants	292	Fixed Assets	4,136
Revenue Financing	25	Intangible Assets	369
Capital Receipts	5,182	REFCUS	1,404
Other Contributions	410		
	5,909		**5,909**

26. Leases

Council as a lessee

Finance leases

As a result of transition to IFRS, the Council has identified an arrangement containing a lease relating to vehicles used in the Refuse and Recycling contract with Enterprise. Under the Code, the Council is seen as effectively leasing 16 vehicles from Enterprise. The lease term is for 7 years starting from August 2002. The vehicles are specialised in nature and the term is for the full expected life of the asset therefore the lease is classified as a finance lease.

The assets acquired under the lease are carried as Vehicles, Plant and Equipment in the Balance Sheet at nil carrying value, due to the assets being fully depreciated at 31 March 2011.

The Council has no commitment to make minimum payments under the lease as at 31 March 2011, as the lease ended in August 2009, and all outstanding payments had been made by 31 March 2010.

Operating leases

The Council leases the Buntingford Service Centre, a unit at Bircherley Green Hertford, and offices at Charrington House which have been accounted for as operating leases. The Waitrose Car Park was disposed in the year ended 31 March 2010.

Previously, the Council had leased the car park and accounted for it as an operating lease where the Council is a lessor. There was a pre-existing agreement between the lessee and the Council, and it was agreed that the lessee will continue to pay the Council the lease payments due, and the Council will forward the payment received to the new owners of the car park. The amounts due to the new owner has been accounted for as lease payments below. In 2010/11, the lease payments received from the lessee which was subsequently paid over to the new owners was £97,000.

The Council has granted leases to various occupiers of shops, offices, industrial units and other miscellaneous assets for varying number of years. These arrangements are accounted for as operating leases.

The future minimum lease payments due under non-cancellable leases in future years are:

	31 March 11 £000	31 March 10 £000
Not later than one year	449	449
Later than one year and not later than five years	1,775	1,780
Later than five years	5,960	6,404

The expenditure charged to Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

	2010/11 £000	2009/10 £000
Minimum lease payments	449	284
Contingent rents	0	113
Lease payments payable	(97)	(45)
	352	**352**

26. Leases - continued

Council as a lessor

Finance leases

The Council has one property lease where the accounting treatment has changed following the introduction of the Code, relating to Pinders Lodge. The lease term is 50 years from March 1997. The lease was previously classified as an operating lease, but under the Code, the buildings element of the lease has been classified as a finance lease.

The Council has a gross investment in the lease, made up of the minimum lease payments expected to be received over the remaining term. The minimum lease payments comprise settlement of the long-term debtor for the interest in the property acquired by the lessee and finance income that will be earned by the Council in future years whilst the debtor remains outstanding. The gross investment is made up of the following amounts:

	£000
Finance lease debtor as at 31 March 2011	159
Unearned finance income	343
Gross investment in lease as at 31 March 2011	502

The gross investment in the lease which is the minimum lease payments will be received over the following periods:

	Gross investment in lease 31 March '11
Not later than 1 year	14
Later than 1 year and not later than 5 years	56
Later than 5 years	432
	502

Operating Leases

The council receives income from a variety of properties ranging from Industrial and Commercial ground leases, to a small number of commercial premises including shops and other miscellaneous properties. Each is subject to individual agreements and reviews. The terms are dependent upon a number of criteria; the corporate priorities of the Council, options that are available, historic and legal agreements.
The future minimum lease payments receivable under non-cancellable leases in future years are:

	31 March '11 £000
Not later than one year	474
Later than 1 year and not later than 5 years	1,557
Later than 5 years	25,568

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2010/11 £180k contingent rents were receivable by the Council (2009/10 £258k).

27. Pension Scheme

As part of the terms and conditions of employment the Council offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

The Council participates in the Local Government Pension Scheme which is administered by Hertfordshire County Council. This is a funded defined benefit final salary scheme which means that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

The Council recognises the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the Council is required to make against council tax is based on the cash payable in the year.

The following transactions set out the position for the year:

Comprehensive Income & Expenditure Statement:	**2010/11**	**2009/10**
Net Cost of Services:	**£000**	**£000**
Current service cost	1,883	1,005
Non Distributed Costs -		
Past Service Cost / (Gain)	(9,764)	170
Losses / (Gains) on Curtailments & Settlements	36	72
Net Operating Expenditure:		
Interest cost	5,165	4,424
Expected returns on assets in the scheme	(4,158)	(2,862)
Costs charged against CI&E	(6,838)	2,809
Amounts to be met from Government Grants & Local taxation:		
movement on the pensions reserve	8,817	(835)
Actual amount charged against council tax for pensions in the year:		
Employers contributions payable to scheme	1,979	1,974

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2011 is a loss of £10,935k.

Assets and liabilities in relation to retirement benefits

Reconciliation of present value of the scheme liabilities:

	2010/11	**2009/10**
	£000	**£000**
1 April	102,115	64,699
Current Service Cost	1,883	1,005
Interest Cost	5,165	4,424
Contributions by scheme participants	590	610
Actuarial gains and losses	(10,921)	34,188
Benefits paid	(3,788)	(3,053)
Past service costs (Gains)	(9,764)	170
Losses on Curtailments	36	72
31 March	**85,316**	**102,115**

In the UK budget statement on 22 June 2010 the Chancellor announced that with effect from 1 April 2011 public service pensions would be up-rated in line with the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI).

This has the effect of reducing the Council's liabilities in the Hertfordshire County Council Pension Fund by £9,764k and has been recognised as a past service gain in accordance with guidance set down in UTIF Abstract 48, since the change is considered to be a change in benefit entitlement. There is no impact upon the General Fund.

27. Pension Scheme - continued

Reconciliation of fair value of the scheme assets:

	2010/11 £000	2009/10 £000
1 April	60,047	46,757
Expected rate of return	4,158	2,862
Actuarial gains and losses	237	10,897
Employer contributions	1,979	1,974
Contributions by scheme participants	590	610
Benefits paid	(3,788)	(3,053)
31 March	63,223	60,047

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £14,264,000 (2009/10 £14,859,000).

Scheme history

	31 March 2011 £000	31 March 2010 £000	31 March 2009 £000	31 March 2008 £000	31 March 2007 £000
Present value of liabilities	(85,316)	(102,115)	(64,699)	(67,273)	(81,005)
Fair value of assets	63,223	60,047	46,757	61,676	66,648
(Deficit) in the scheme	(22,093)	(42,068)	(17,942)	(5,597)	(14,357)

The Council elected not to restate fair value of schemes from mid-market to bid price as permitted by IAS 19. On the basis of immateriality, as advised by the actuary, 2006/07 and 2007/08 have not been restated.

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £85,316k has a substantial impact on the net worth of the authority as recorded in the Balance Sheet, resulting in a negative overall balance of £22,093k.

The deficit on the pension scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

The total contributions expected to be made to the pension scheme by the authority in the year to 31 March 2012 is £1,847k.

27. Pension Scheme - continued

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Hertfordshire County Council Fund liabilities have been assessed by Hymans Robertson LLP, an independent firm of actuaries, estimates for the Hertfordshire County Council Fund being based on the latest full valuation of the scheme as at 1 April 2010.

The principal assumptions used by the actuary have been:

	31 March '11		31 March '10	
Long-term expected rate of return on assets in the scheme:				
Equity investments	7.5%		7.8%	
Bonds	4.9%		5.0%	
Property	5.5%		5.8%	
Cash	4.6%		4.8%	
Mortality assumptions:				
Longevity at 65 for current pensioners:				
Men	21.0	years	22.7	years
Women	23.8	years	26.1	years
Longevity at 65 for future pensioners:				
Men	22.9	years	24.8	years
Women	25.7	years	28.3	years
Rate of inflation/ Pension increase	2.8%		3.8%	
Rate of increase in salaries	5.1%		5.3%	
Expected Return on Assets	6.8%		7.0%	
Discount Rate	5.5%		5.5%	
Take up option to convert annual pensions into retirement lump sum for pre April 2008 service	50%		50%	
Take up option to convert annual pensions into retirement lump sum for post April 2008 service	75%		75%	

The County Council Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

	31 March '11	31 March '10
	%	%
Equity investments	73	71
Bonds	19	19
Other assets	8	10
	100	100

History of experience gains and losses	31 March 2011 %	31 March 2010 %	31 March 2009 %	31 March 2008 %	31 March 2007 %
Differences between the expected and actual return on assets	1.30	19.98	(40.90)	(13.70)	1.39
Experience gains and losses on liabilities	1.76	0.00	0.02	8.89	(0.03)

28. Nature and Extent of Risks arising from Financial Instruments

The Council's management of treasury risks actively works to minimise the Council's exposure to the unpredictability of financial markets and to protect the financial resources available to fund services. The Council in the annual Treasury Strategy Statement specifies the counterparty to be used and the the priority is the security of the capital. It also sets out the borrowing requirement, prospects on interest rates and exposure limits.(This document is available on our website www.eastherts.gov.uk).

1 Credit Risk

Credit risk arises from the short-term lending of surplus funds to banks, building societies and other local authorities. It is the policy of the Council to place deposits only with a limited number of high quality UK banks and building societies whose credit rating is independently assessed as sufficiently secure by the Council's treasury advisors and to restrict lending to a prudent maximum amount for each institution. The Council expects full repayment on the due date of deposits placed with its counterparties. (There has been no history of any past defaults on the Council's investments).

The following analysis summarises the Council's exposure and historic experience of default:-

	Long Term Rating	Short Term Rating	Limits per category £000	Amounts as @ 31.3.11 £000	Historical Experience Default
UK Treasury	AAA	F1	No limit	0	0
Canadian Banks	AA	F1	5,500	4,700	0
UK Banks	AA	F1	30,000	14,366	0
French Banks	AA	F1	5,500	4,729	0
Netherlands Banks	AA	F1	5,500	3,531	0
Building Societies	AA	F1	5,500	2,928	0
German bank	AA	F1	5,500	3,419	0
SWIP Money Market Funds	AAA		No limit	34,239	0
SWIP Cash Fund	AAA		No limit	988	0
				68,900	

Accounts Receivable

The Council does not generally allow credit facilities to customers in relationship to debts. The table recognises the changes in accounting arrangements for Council Tax and National Non Domestic Ratepayers. The past due amount can be analysed by age as as follows: (see policy xvii, page 20)

	31 March '11 £000	31 March '10 £000
Less than three months	932	491
Three months to six months	192	129
Six months to one year	476	446
More than one year	1,163	949
	2,763	2,015

In addition to the above there is a debtor of £7,350,000 where payment is not due until 16 October 2011
The Council pursues all debts in line with its established debt recovery policy.

2 Liquidity Risk

The Council has ready access to borrowing from the Public Works Loans Board, there is no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments
The Council reviews its borrowing requirements as part of its annual Treasury Management strategy in order to optimise financial performance and reduce exposure to interest rate risk. This includes safeguards that if borrowing is undertaken then the maturity profile would be monitored to alleviate any future funding problems in any one year. As no new borrowings have been entered into in recent years this has not been relevant. (see note 30, page 53).

The Council's cash flows are managed on a day to day basis in line with established procedures.

28. Nature and Extent of Risks arising from Financial Instruments (cont.)

3 Market Risk

Interest rate risk
The Council is exposed to significant risk in terms of its exposure to interest rate movements on its investments. Movements in interest rates have a complex impact on the authority. For instance, a rise in interest rates would have the following effects:

- borrowings at fixed rates - the fair value of the liabilities will fall
- investments at variable rates - the interest income credited to the Income and Expenditure Account will rise
- investments at fixed rates - the fair value of the assets will fall.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Income and Expenditure Account . However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Comprehensive Income and Expenditure Statement and affect the General Fund Balance £ for £. Movements in the fair value of fixed rate investments will be reflected in the Comprehensive Income & Expenditure Statement.

The Council has a number of strategies for managing interest rate risk. Current policy is to aim to keep a maximum of 50% of its borrowings in variable rate loans, all borrowing at 31 March 2011 was fixed rate. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses. The risk of loss is ameliorated by the fact that a proportion of government grant payable on financing costs will normally move with prevailing interest rates of the authority's cost of borrowing and provide compensation for a proportion of any higher costs.

The Treasury Management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to manage the budgets during the year. This allows any adverse changes to be accommodated. The strategy will also consider new borrowing opportunities.

The prolonged low interest rates resulted in lower returns then originally budgeted for in 2010/11. The Council had established an Interest Equalisation Reserve (£1.185m) in order to assist in managing interest rate fluctuations. The balance on the reserve has been fully applied in 2010/11 in line with a Council decision

Based on the current Treasury Management position at 31 March 2011, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	£000
Increase in interest payable on variable rate borrowings	no variable borrowings
Increase in interest receivable on variable rate investments	20
Increase in government grant receivable for financing costs	de-minimis
Impact on Income and Expenditure Account	20
Decrease in fair value of fixed rate investment assets (impact on Comprehensive I & E Statement)	161
Decrease in fair value of fixed rate borrowing liabilities (no impact on Comprehensive I & E Statement)	875

The impact of a 1% fall in interest rates would be as above but with the movement being reversed.

28. Nature and Extent of Risks arising from Financial Instruments (cont.)

4 Price Risk / Foreign Exchange Risk

The Council has no financial assets or liabilities denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates.

The Council also has no shareholdings or insurance investment fund, therefore has no exposure to any further losses.

29. Investments

The Council's investments consists of:

	31 March 2011 £000	31 March 2010 £000	1st April 2009 £000
Long term investments	8	8	8
Temporary investments:			
Money market fund	33,192	34,697	33,355
Building Society Deposits	2,928	5,302	5,210
Bank deposits	29,747	31,129	34,325
Uk Treasury Securities	-	-	3,014
	65,875	71,136	75,912

30. Borrowing

Source of Loan	Range of interest rates payable (%)	Total Outstanding 31 March '11 £000	31 March '10 £000
Public Works Loan Board	8.875 - 10.125	1,521	1,521
Bonds	8.785	6,189	6,189
		7,710	7,710

An analysis of loans by maturity is:-

	£000	£000
Maturing within one year	-	-
Maturing in 1-2 years	-	-
Maturing in 2-5 years	-	-
Maturing in 5-10 years	-	-
Maturing in 10-15 years	6,189	6,189
Maturing in 40-45 years	1,521	1,521
	7,710	7,710

Also see notes 9 and 11 to the Core Statements.

31. Deferred Credits

Deferred Credits include amounts derived from sales of assets which will be received in instalments over agreed periods of time. They arise from mortgages on sales of council houses and sums receivable under planning agreements.

	2010/11 Mortgages £000	Sec 106 £000	Total £000
Balance as at 1 April	28	296	324
Movements in the year	(7)	(51)	(58)
Balance as at 31 March	21	245	266

32. Publicity

The Council's spending on publicity, as required to be disclosed under Section 5 (1) of the Local Government Act 1986 was as follows:

	2010/11 £000	2009/10 £000
Recruitment Advertising	6	13
Local Authority Periodical	41	44
Total	47	57

33. Building Regulations Charging Account

The Local Authority Building Control Regulations 1998 require the disclosure of information regarding the cost of operating the building control service.
The following statement sets out the costs and income for 2010/11 divided between chargeable and non-chargeable activities.

	2010/11		
	Chargeable	Non Chargeable	Building Control Total
Expenditure	**£000**	**£000**	**£000**
Employee Expenses	404	107	511
Premises	28	7	35
Transport	28	7	35
Supplies and Services	48	13	61
Support Service Charges	151	33	184
Total Expenditure	**659**	**167**	**826**
Income			
Bldg Regulation Charges	651	0	651
Total Income	**651**	**0**	**651**
(Surplus) / Deficit	**8**	**167**	**175**

34. Analysis of Fixed Assets

		31 March '11 (Nos.)		31 March '10 (Nos).	
Council Dwellings	Hostels	1		2	
	Houses	3		3	
Council Offices	Freehold	1		1	
	Leasehold	1		1	
Service Centre	Leasehold	1		1	
Cash Offices		2		2	
Off-Street Car Parks (incl. Leasehold)		31		31	
Swimming Pools (including 3 joint-use pools)		5		5	
Parks and Recreation Grounds/Open spaces		187	HA	187	HA
Public Halls/Community Centres (incl leasehold)		9		9	
Commercial Property Rented Out		51	Units	52	Units
Land Awaiting Development		3	Acres	3	Acres

35. Post Balance Sheet Event

With effect from May 2011 the Council relet its Refuse, Recycling and Street Cleansning contract which will result in revenue savings of £1.469m compared to 2010/11.

On 20 April 2011 the Council placed a Structured Deposit of £10m with Lloyds TSB bank for a period of 4 years.

THE COLLECTION FUND
INCOME AND EXPENDITURE ACCOUNT - (SUPPLEMENTARY NOTE)

		2010/11 £000	2009/10 £000
INCOME			
Council Tax	*Note 2*	79,795	78,662
Transfers from General Fund			
- Council Tax Benefits	*Note 2*	6,896	6,722
Income collectable from business ratepayers	*Note 3*	40,513	39,998
Contribution towards previous years deficit		108	898
		127,312	126,280
EXPENDITURE			
Precepts and Demands	*Note 4*	85,911	85,267
Business Rate			
- Payment to National Pool	*Note 3*	40,310	39,793
- Costs of Collection	*Note 3*	203	205
Bad Debt Provision - Increase:			
Council Tax		260	221
		126,684	125,486
MOVEMENT ON FUND			
Net (Income)/Expenditure		(628)	(794)
Balance as at 1 April		211	1,005
(Surplus)/Deficit as at 31 March	*Note 5*	(417)	211

NOTES TO THE COLLECTION FUND INCOME AND EXPENDITURE ACCOUNT

1. General

As a billing authority The Council is required by statute to maintain a separate fund for the collection and distribution of amounts due in respect of council tax and national non-domestic rates (NNDR). The funds key features relevant to accounting for council tax in the core financial statements are:
(a) As a billing authority the Council acts as an agent: it collects and distributes Council Tax income on behalf of the major preceptors and itself.
(b) while the Council Tax income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the General Fund of the billing authority or paid out of the Collection Fund to major preceptors.
From 1 April 2009, for both billing authorities and major preceptors, the Council Tax income included in the Comprehensive Income and Expenditure Statement for the year shall be the accrued income for the year. The Council's accounts now reflect recognised position as agent acting on behalf of the major precepting authorities and the Government.

2. Council Tax

The Council's tax base i.e. the number of chargeable dwellings in each valuation band (adjusted for dwellings where discounts apply) converted to an equivalent number of Band D dwellings, is calculated as follows:-

Band	Estimated No. of Taxable Properties after effect of discounts	Ratio	Band D Equivalent Dwellings
A	707.50	6/9	471.67
B	4,881.25	7/9	3,796.53
C	12,917.25	8/9	11,482.00
D	13,323.00	9/9	13,323.00
E	9,528.75	11/9	11,646.25
F	6,595.75	13/9	9,527.19
G	4,879.00	15/9	8,131.67
H	688.75	18/9	1,377.50
	53,521.25		59,755.81
Plus adjustment for collection rates and for anticipated changes during the year for successful appeals against valuation banding, new properties, demolitions, disabled persons relief and exempt properties.			(1,965.19)
	2010/11 Estimated Council Tax Base		57,790.62

Tax Collection	£000	
10/11 Tax Base of 57,790.62 x £1,486.59 (Average Band D Charge)	85,911	Estimated Tax Due
10/11 Council Tax Income (including Council Tax Benefits)	86,691	Actual Tax Income
	(780)	Surplus

This surplus is explained by movements in the tax base.

The actual Tax Base for 2010/11 equates to	58,315.66
This compares to an estimated Tax Base for 2011/12 of	58,123.00

NOTES TO THE COLLECTION FUND INCOME AND EXPENDITURE ACCOUNT (continued)

3. Income from Business Ratepayers

The Council collects non-domestic rates for its area which are based on local rateable values multiplied by a uniform rate which for 2010/11 was 41.4p. The total amount, less certain reliefs and other deductions, is paid to a central pool (the National Non Domestic Rate (NNDR) pool) managed by Central Government, which in turn pays back to authorities their share of the pool based on a standard amount per head of the local adult population. This contribution is paid into the General Fund.

At the year end the total non-domestic rateable value was £118.012 million.

The amounts included in the accounts for 2010/11 can be analysed as follows:

	£000
Gross rates payable in respect of 2010/11	41,102
Less allowances and other adjustments	(589)
Income collectable from business ratepayers	40,513
Less Costs of Collection	(203)
Payable to national NNDR pool	40,310

4. Precepts and Demands

	£000
East Hertfordshire District Council	12,710
Hertfordshire County Council	64,658
Police Authority	8,543
	85,911

5. Balance on Fund

The balance on the Collection Fund as at 31 March 2011 is represented by:-

	£000
(Surplus) on Council Tax element of the Fund	(417)
	(417)

Of the surplus balance on the Fund the following amounts are attributable to :-

	£000
East Hertfordshire District Council	(62)
Hertfordshire County Council	(314)
Police Authority	(41)
	(417)

STATEMENT OF ACCOUNTS 2010/11

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Authority's responsibilities

The Authority is required:

to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Finance Officer

to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

to approve the Statement of Accounts.

The Chief Finance Officers' responsibilities

The Chief Finance Officer is responsible for the preparation of the authority's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("The Code of Practice").

In preparing this statement of accounts, the Chief Finance Officer has:

selected suitable accounting policies and then applied them consistently;

made judgements and estimates that were reasonable and prudent;

complied with the local authority Code.

The Chief Finance Officer has also:

kept proper accounting records which were up to date;

taken reasonable steps for the prevention and detection of fraud and other irregularities.

EAST HERTFORDSHIRE DISTRICT COUNCIL

Certificate of Responsible Financial Officer

I certify that this Statement of Accounts presents a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2011.

Signed .... Dated ....

A Madin
Director of Internal Services
East Hertfordshire District Council

Signed .... Dated ....

Councillor J Ranger
Chairman of Audit Committee

INDEPENDENT AUDITORS' REPORT TO EAST HERTFORDSHIRE DISTRICT COUNCIL

Signed .... **Dated** ....

EAST HERTS COUNCIL

AUDIT COMMITTEE – 21 SEPTEMBER 2011

REPORT BY THE LEADER OF THE COUNCIL

REPORT TITLE: ANNUAL GOVERNANCE STATEMENT 2010/11

WARD(S) AFFECTED: ALL

Purpose/Summary of Report

- This report presents the 2010/11 Annual Governance Statement at **Essential Reference Paper 'B'**

RECOMMENDATION:	
(A)	**That the Annual Governance Statement 2010/11 be approved.**

1.0 Background

1.1 The Annual Governance Statement is necessary to meet the requirements set out in the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006.

2.0 Report

2.1 The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, used economically, efficiently and effectively.

2.2 The Council should undertake regular, at least annual, reviews of its governance arrangements by means of an Annual Governance Statement, to ensure continuing compliance with best practice. It is important that such reviews are reported both within the Council, to the Audit Committee and externally with the published accounts, to provide assurance that:

- governance arrangements are adequate and operating effectively in practice, or
- where reviews of the governance arrangements have revealed gaps, action is planned that will ensure effective governance in the future.

2.3 The process of preparing the governance statement should itself add value to the corporate governance and internal controls framework of the Council.

2.4 A governance statement should include the following information:

- an acknowledgement of responsibility for ensuring there is a sound system of governance (incorporating the system of internal control)
- an indication of the level of assurance that the systems and processes that comprise the Council's governance arrangements can provide
- a brief description of the key elements of the governance framework, including reference to group activities where those activities are significant.
- a brief description of the process that had been applied in maintaining and reviewing the effectiveness of the governance arrangements, including some comment on the role of:
  - the Council
  - the Executive
  - the Audit Committee/ overview and scrutiny function/ Standards Committee
  - Internal Audit
  - other explicit review/ assurance mechanisms.
- an outline of the actions taken, or proposed, to deal with significant governance issues.

2.5 It is important to recognise that the governance statement covers all significant corporate systems, processes and controls, spanning the whole range of the Council's activities, including in particular those designed to ensure that:

- the authority's policies are implemented in practice.
- high quality services are delivered efficiently and effectively.
- the authority's values and ethical standards are met.
- laws and regulations are complied with.
- required processes are adhered to.
- financial statements and other published performance information are accurate and reliable.

- human, financial, environmental and other resources are managed efficiently and effectively.

2.6 The Draft Annual Governance Statement was initially considered by the Audit Committee on 12 July 2011. It has subsequently been considered by Human Resources Committee, Corporate Business Scrutiny Committee, Standards Committee and the Executive. The revised Annual Governance Statement is attached as **Essential Reference Paper 'B'**. This document shows tracked recommended amendments resulting from previous consultations.

2.7 Responsibility for approval of the Annual Governance Statement rests with the Audit Committee, as part of the approval of the Annual Accounts.

3.0 Implications/Consultations

3.1 Appropriate Consultations have taken place with senior Council Officers through Corporate Management Team. Committee Chairmen have also been given the opportunity to contribute to the process. The consultation process has been with Members of Audit Committee on 12 July 2011, Human Resources Committee on 13 July 2011, Corporate Business Scrutiny Committee on 19 July 2011, Standards Committee on 16 August and the Executive on 6 September 2011. The External Auditor has also been consulted. Information on corporate issues and consultation associated with this report can be found within **Essential Reference Paper 'A'.**

Background Papers:

Draft 2010/11 Annual Governance Statement – Audit Committee 12 July 2011.

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Leader of the Council

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Ext 1406

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Ext 1405

Chris Gibson
Manager of Corporate Risk –
Ext 2073

Contribution to the Council's Corporate Priorities/ Objectives*:*	**Fit for purpose, services fit for you** *Deliver customer focused services by maintaining and developing a well managed and publicly accountable organisation.*
Consultation:	No public or partner consultations were required during the preparation of this report.
Legal:	There are no additional legal implications to those already contained in this report.
Financial:	There are no additional financial implications to those already contained in this report.
Human Resource:	There are no additional human resource implications to those already contained in this report.
Risk Management:	There are no additional risk management implications to those already contained in this report.

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ESSENTIAL REFERENCE PAPER 'B'

ANNUAL GOVERNANCE STATEMENT 2010/11 AND ACTION PLAN 2011/12

Scope of responsibility

East Hertfordshire District Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, including arrangements for the management of risk.

The Council has approved and adopted a local code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' (CIPFA 2007).

This statement explains how the Council has complied with the code and also how it meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

Further copies of this statement are available on the Council's website www.eastherts.gov.uk/, alternatively paper copies can be obtained from:

East Hertfordshire District Council
Director of Internal Services
Wallfields
Pegs Lane,
Hertford
SG13 8EQ

The purpose of the governance framework

The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled and by which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. Controls cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify risks to the achievement of the council's policies, aims and objectives. It evaluates the likelihood of those risks being realised and the impact should they be realised, and it prioritises and manages them efficiently, effectively and economically.

The governance framework described below has been in place at the Council for the year ended 31 March 2011 and up to the date of approval of the statement of accounts.

The Governance Framework

The Council's governance framework derives from the six core principles identified by the Independent Commission on Good Governance in Public Services – a commission set up by the Chartered Institute of Public Finance and Accountancy (CIPFA), and the Office for Public Management. The Commission used work done by, amongst others, Cadbury (1992), Nolan (1995) and CIPFA/SOLACE (2001). These principles were adapted for application to local authorities and published by CIPFA in 2007.

The six core principles are:

a. focusing on the purpose of the Council and on outcomes for the community and creating and implementing a vision for the local area;
b. Members and officers working together to achieve a common purpose with clearly defined functions and roles;
c. promoting values for the Council and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
d. taking informed and transparent decisions which are subject to effective scrutiny and managing risk;
e. developing the capacity and capability of Members and officers to be effective; and
f. engaging with local people and other stakeholders to ensure robust public accountability.

The key elements of East Herts Council's application of each of these core principles are as follows:

a) Focusing on the purpose of the Council and on outcomes for the community and creating and implementing a vision for the local area

The Sustainable Community Strategy outlines the vision, aims and priority themes for the district. It was produced in conjunction with the East Hertfordshire Local Strategic Partnership, which brings together all relevant stakeholders, including those that deliver services in the area.

The Council's aims and objectives are set out in the annually updated Corporate Strategic Plan. This contains five priorities (which are currently under review), plus related aims and objectives. The Corporate Strategic Plan sets out what the Council expects to deliver over the next four years and, in many cases, beyond this timeframe. The details of how the Council will get there are incorporated in the individual service plans. The Plan will be updated each year to include new service developments and to remove actions once they are completed. The Plan sets the direction for the financial planning of the Council based on the Council's priorities.

The Executive receives the Medium Term Financial Strategy covering a four-year period, which is used to set initial parameters for the coming budget process to ensure that spending proposals are affordable and sustainable over the medium term.

The diagram below sets out the various links in the process of establishing and subsequently monitoring the achievement of the Council's ambitions. It shows the links between the Sustainable Community Strategy and Corporate Strategic Plan which then feed into, and are informed by, service plans, service targets and individual employees via specific areas of responsibility allocated to them.

The Council has an effective performance management framework using a dedicated IT system to record and report performance. The system is driven by the Service Plans which focus on activities that will deliver the Council's ambitions and priorities. This is cascaded through individual employee appraisals.

This process monitors how the Council is meeting its targets and triggers corrective actions where targets are proving challenging.

The Council's Executive and its Scrutiny Committees monitor and scrutinise progress against targets and performance in priority areas affecting relevant service areas, and consider and approve corrective action where necessary. For ease of interpretation performance graphs are reported. There are reports which include the results of monthly and quarterly budget monitoring reports covering the revenue expenditure, capital projects, key performance indicators and absence monitoring.

The monitoring process has enabled the Council to concentrate on areas which require particular attention.

The Council is therefore able to monitor all key measures on a monthly basis and respond quickly and effectively to changes at an early stage.

The Council maintains an objective and professional relationship with external auditors and statutory inspectors, as evidenced by the Annual Audit Letter.

Through reviews by external auditors, external agencies, Internal Audit, and internal review teams, the Council constantly seeks ways of securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness in the use of resources. The Council has regularly reviewed Financial Regulations and has adopted new Procurement Regulations from November 2010 to ensure proper arrangements are in place for procurement of goods and services.

All budget cost centres are allocated to a named post holder, who is responsible for controlling spend against those budgets, and who is also responsible for maximising the benefits from assets used in the provision of their service.

b) Members and officers working together to achieve a common purpose with clearly defined functions and roles

The Council has adopted a constitution which sets out how the Council operates, how decisions are made and the procedures which are followed to ensure these are efficient, transparent and accountable to local people.

As required by the Local Government and Public Involvement in Health Act 2007, East Hertfordshire District Council drew up proposals for new arrangements for the discharge of its executive functions, to take effect immediately after the Council elections in May 2011.

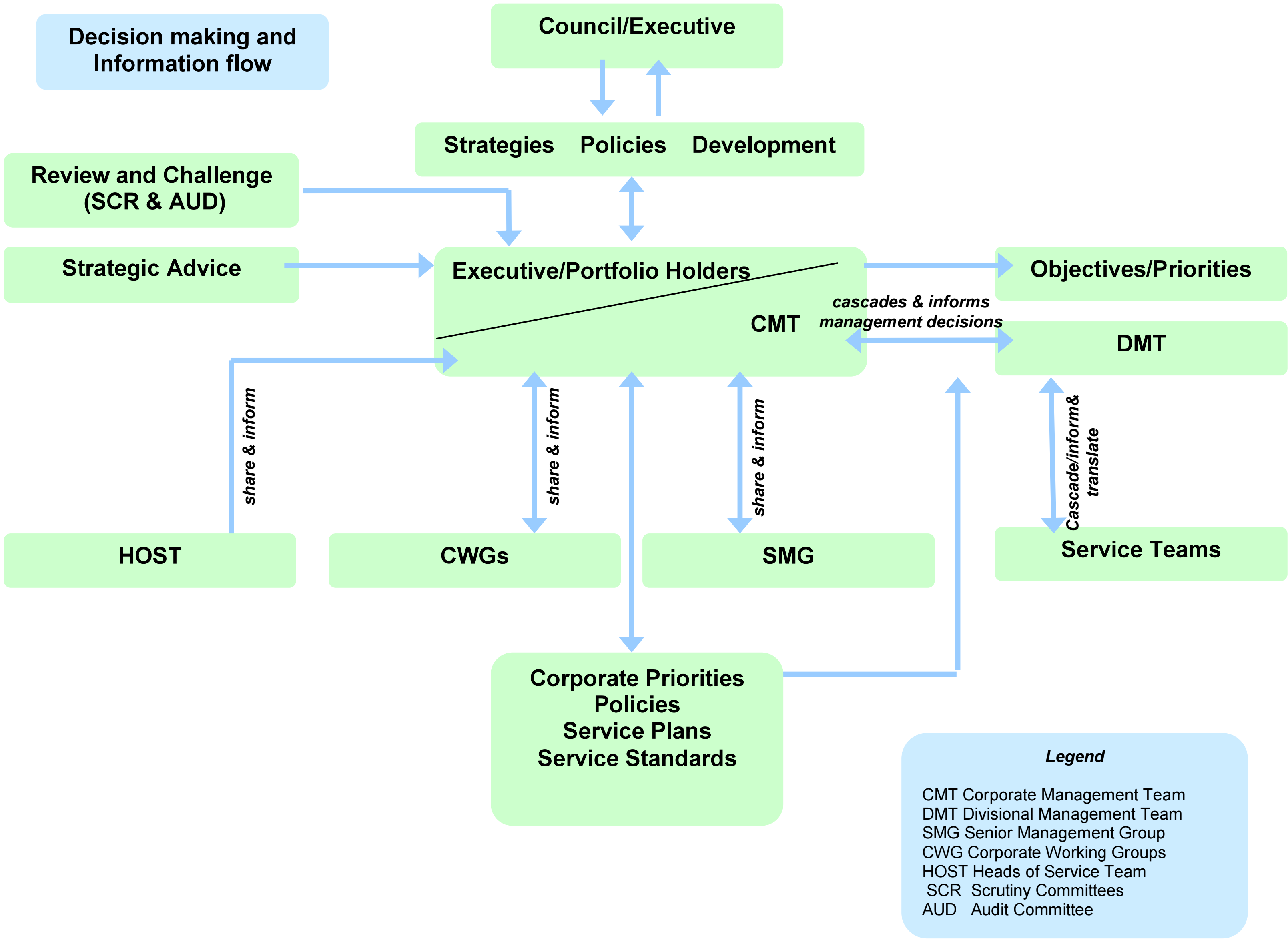
These proposals followed public consultation by the Council on the two broad options for new executive arrangements allowed by the 2007 Act (Leader and Cabinet Executive; and Mayor and Cabinet Executive).

The Council adopted the Leader and Cabinet Executive model. The main features are:

- The Council's Executive consists of a Leader and between two and nine other Councillors.
- The Leader is elected by full Council (initially at its annual meeting in May 2011) and will hold office until his term as Councillor has expired.
- The other Executive Members will be appointed by the Leader who will decide their portfolios and also which executive functions will be discharged by full Executive, any of its Committees or any individual Executive Member or officers.
- There are currently five Councillors on the Executive.

The Council's Corporate Management Team (CMT) consisting of the Chief Executive, Directors and the Head of People and Organisational Services meets on a fortnightly basis to develop policy issues commensurate with the Council's aims, objectives and priorities. CMT also considers internal control issues, including risk management, performance management, compliances, efficiency and value for money, and financial management. Members of CMT meet with Portfolio Holders on a monthly basis to review progress in achieving the Council's ambitions, priorities for action, budget monitoring, performance management and forward planning for major issues. CMT has a corporate responsibility for the messages that the Council produces, both internally and externally.

Below CMT the management structure is well defined. The chart below indicates how decisions are implemented and cascaded:


Decision making and Information flow
Council/Executive
Strategies Policies Development
Review and Challenge (SCR & AUD)
Strategic Advice
Executive/Portfolio Holders
CMT
cascades & informs management decisions
Objectives/Priorities
DMT
share & inform
share & inform
share & inform
Cascade/inform& translate
HOST
CWGs
SMG
Service Teams
Corporate Priorities
Policies
Service Plans
Service Standards
Legend
CMT Corporate Management Team
DMT Divisional Management Team
SMG Senior Management Group
CWG Corporate Working Groups
HOST Heads of Service Team
SCR Scrutiny Committees
AUD Audit Committee

The Senior Management structure review is currently underway in order to implement the cost savings agreed within the Medium Term Financial Plan. The reduction in management capacity will require senior management to undertake more operational responsibilities. There will be a reduction in capacity of more senior officers to respond to enquiries. Focus will be on key activities.

The Council has adopted a number of codes and protocols that will govern both Member and officer activities. These are:

- Members' Code of Conduct
- Officers' Code of Conduct
- Members' Planning Code of Good Practice
- Member/Officer Relations Protocol

c) Promoting values for the Council and demonstrating the values of good governance through upholding high standards of conduct and behaviour

It is the function of the Monitoring Officer to ensure compliance with established policies, procedures, laws and regulations. After consulting the Chief Executive and Section 151 Officer he will report to the full Council if he considers that any proposal, decision or omission would give rise to unlawfulness or maladministration. Such a report will have the effect of stopping the proposal or decision being implemented until the report has been considered.

Under Section 5 of the Local Government and Housing Act 1989 it is the duty of the Council's Monitoring Officer to report to Council if it appears that the Authority, a Committee or Officer of the Authority has made a decision which is contrary to law. There were no reports made during 2010/11.

The Council has responsibility for responding to Freedom of Information Requests (FOI) promptly and within 20 working days. It has not always been possible to respond to all requests within this timescale.

The Council has taken action to improve its speed of response to FOIs. An important element of that plan is to shift the Council from waiting for FOI requests to proactively reducing the need for individuals to request information by making a wider range of information more easily available through the Council's website. This will include designing improvements to the website front page and more clearly signposting enquirers to the most used information. An action plan to better facilitate easy access to information and the management of freedom of information has been agreed.

The Council recognises that expenses of politicians have come under serious scrutiny. The current Members Allowances scheme is published in the Constitution. A new Independent Remuneration Panel was established and its recommendations for Members Allowances in 2011/12 were considered by Council in February 2011. The review of 2012/13 allowances by the Panel will commence in Autumn 2011.

All Council services are delivered by trained and experienced people. All posts have a detailed post profile and person specification. Training needs are identified through the Personal Development Review Scheme and addressed via the Human Resources service and/or individual services as appropriate.

The Council achieved re-accreditation for a further three years from April 2009 under the Investors in People Standard, which is a quality framework to ensure that the Council's employees have the right knowledge, skills and motivation to work effectively.

The financial management of the Council is conducted in accordance with the Constitution and with Financial Regulations. The Director of Internal Services is the statutory Chief Finance Officer in accordance with Section 151 of the Local Government Act 1972.

The Council has a Treasury Management Strategy Statement and Annual Investment Strategy in place. Investments are made in accordance with the Council's approved policy. All investment transactions and transfers undertaken in house are supported by appropriate documentation and are properly authorised. External fund managers are subject to strict regulation by the FSA. The Portfolio holder and the Leader of the Council receive regular updates from the Director of Internal Services. The Chairman of the Audit Committee and Chairman of Corporate Business Scrutiny Committee are invited to participate in review meetings with Fund Managers.

The Council maintains an Internal Audit section, which operates to the standards set out in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. An Anti-Fraud and Anti-Corruption Strategy and a Disclosure (Whistleblowing) Code are in place. A Whistleblowing hotline and email facility operates and has been well publicised. All staff received Annual Declaration Letters with their February 2011 payslips. The Council has adopted a policy on Bribery during the last year. The Council does not tolerate bribery committed by Council employees or its contractors or partners and will take consistent and swift action against those persons committing bribery.

Individual services have produced Service Plans that are updated each year so that services know what they are required to do to achieve the Council's priorities and ambitions.

At individual employee level the Council has established a Personal Development Review Scheme so as to jointly agree individual employee objectives and identify training and development needs. The Scheme provides for a mid-year review as well as an annual appraisal at which past performance is reviewed.

d)Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.

The Council has several committees which carry out regulatory or scrutiny functions. These are:

- Overview and Scrutiny committees (Corporate Business Scrutiny, Community Scrutiny and Environment Scrutiny) review and/or scrutinise decisions made or actions taken in connection with the discharge of any of the Council's functions, developing the capacity and capability of members and officers to be effective.
- Audit Committee provides assurance about the adequacy of internal controls, financial accounting and reporting arrangements, and that effective risk management

is in place. Its work is intended to enhance public trust in the corporate and financial governance of the council;

- Development Control Committee determines planning applications and related matters;
- Licensing Committee monitors and reviews the effectiveness of the Council's licensing policy and procedures;
- The Human Resources Committee's functions relate to all aspects of the Council's role as an employer. This includes the monitoring and strategic overview of Human Resources activities.
- Standards Committee promotes, monitors and enforces probity and high ethical standards amongst the Council's Members, and this extends to having the same responsibility for all town and parish councils within the District;

The Council has data protection polices and a data sharing protocol in place to ensure that personal data is maintained securely and used correctly.

The Risk Management Strategy defines risk management, explains the benefits of a strategic approach, outlines how it will be implemented, identifies roles and responsibilities and formalises the process. The Strategy sets out the links between risk management, emergency planning and business continuity. It recognises that risk management is a key part of the management of projects and partnerships.

The Strategy highlights how risk management supports strategic planning, financial planning, policy making and review and performance management.

The Corporate Management Team is responsible for ensuring that the key risks on the strategic risk register are managed. Strategic and service risk registers are reviewed on a quarterly basis. Risks will be amended so that they reflect the current situation, obsolete risks deleted and new risks added. This will ensure that the risk register and the resulting risk mitigation measures are appropriate for corporate objectives and services.

Risk management reporting arrangements are included which describe the roles and responsibilities of Members and officers. Members have received risk management training.

A new Strategic Risk Register was developed with assistance from Zurich Management Services Ltd. A list of new operational risks has been drawn up. The Council also has a Partnership Protocol in place.

The Council is one of four partners in the Stevenage CCTV Partnership. The structure of the partnership is being reviewed. This review will include the governance arrangements.

e) Developing the capacity and capability of Members and officers to be effective

The Council plans and provides training for members in carrying out their roles effectively including their responsibilities for governance, challenge, scrutiny and review.

During 2010/11 Councillors attended the following scrutiny related events:

- Implications of New Government

- Data Quality
- Covalent training (Performance Management software)
- Questioning for Scrutiny
- CfPS Parliamentary Seminars
- Assessing the Quality of Evidence
- Big Society Learning Network meetings delivered by Local Government Information Unit.
- Programme and Project Management
- Information Governance
- Pension Assets and Liabilities
- Anti-Fraud arrangements and fraud awareness
- Risk Management
- Commuted Sums.

The Members' Corporate Training Plan for 2011/12 provides training in the following areas relating to scrutiny:
- Development Control Committee training.
- IT Training
- Covalent Training
- Web pages and Web casting
- Effective Scrutiny
- Chairing Meetings
- Licensing Training
- Council Budgets
- Procurement/ Health and Safety/ Shared Services

Various other training initiatives are also in the process of development to be delivered to future Scrutiny and Audit Committees.

The Council has an infrastructure in place to support members' needs in respect of ICT requirements and the Council's Democratic Services team provide advice and assistance.

Protocols have been adopted to ensure clarity of the respective roles of officers and members.

The Council's recruitment process is designed to ensure only well qualified applicants are employed and the subsequent induction process is robust so that employees are effective. The Performance Development Review process ensures individual contributions are effective in meeting corporate priorities and capability issues addressed by training. Internal communications methods and processes are reviewed to ensure staff remain well informed and their feed back is responded to. A biennial staff survey leads to action plans to improve effectiveness.

The Council reviews its organisation and capacity as part of its annual service planning to ensure its staffing is commensurate in both quantitative and qualitative terms with its business plans. The Council is committed to taking forward the shared services agenda which will ensure more effective use of scarce skills by sharing across boundaries. A Shared Internal Audit Service across Hertfordshire came into operation from June 2011 and approval has been given to have a shared service for Revenues and Benefits with Stevenage Borough Council. Sharing ICT, HR, Exchequer and Facilities Management services with North Hertfordshire and Stevenage Councils is under active consideration.

The Council's HR People Strategy seeks to ensure its pay and terms and conditions are adequate to attract and retain sufficient staff and to encourage staff to invest in their own development.

The Council seeks to maintain effective industrial relations to enable a high standard of service to the public to be maintained. Staff are fully consulted on proposed changes to terms and conditions. The Council engages with the trade union and staff to manage issues arising from pay settlements and changes to the organisation including the Local Joint Panel and the Human Resources Committee.

Extensive use is made of the Intra net to provide staff with ready access to learning material and best practice via a series of tool kits.

f) Engaging with local people and other stakeholders to ensure robust public accountability.

The Council encourages all members of the local communities to contribute to, and participate in, the work of the Council. The Council achieves this through various resident polls, Community Voice and budget consultation exercises, to ensure that what it is doing meets the needs of its residents. The National Place Survey which was previously introduced to replace the Best Value Performance Indicator (BVPI) survey is no longer taking place. Community Voice will not continue in its current format. Engagement events around specific issues will be considered where they provide a proportionate and cost effective model for engagement.

The Council carried out a Residents' Survey in 2009 and Corporate Business Scrutiny Committee were presented the results on 17 November 2009, along with an action plan which incorporated the actions coming out of the 2008 Place Survey findings. Overall, both survey results recorded improvements for example:

- Satisfaction with the local area has risen from 82% in the 2006/07 BVPI Survey to 89.5 % in the Place Survey, demonstrating that the Council in partnership with other agencies is focusing and delivering on the concerns of local residents.
- Three out of five residents (61%) are generally satisfied with how the Council is running East Herts according to 2009 Residents Survey. This level of satisfaction is broadly reflected in the results from previous resident surveys.
- The percentage of residents that feel that the Council provides good value for money was relatively balanced between positive and negative in 2009 (53% and 48% respectively) and was a significantly more positive result than in 2006/07 when only 45% responded in the positive to this statement and 56% responded negatively.
- Similarly an increasing proportion of residents, responded positively to the statement that the Council is efficient and well run: 63% in 2009 Residents Survey and 61% in 2006/07.

The action plan is a monitoring tool to help the Council and its partners continue to improve. Corporate Business Scrutiny Committee monitors the action plan on an annual basis. The final monitoring against this action plan was presented to Corporate Business Scrutiny on 31 May 2011.

The next Residents Survey is due to be undertaken in autumn 2011. The results of this survey will be used to form the basis of the next action plan.

Alongside the surveys, the Council consults residents and local businesses through specific focus group consultation seeking to ensure representation from the wider community on the forthcoming budget proposals. For 2011/12 this took place between October and November 2010 and focused on issues such as community grants, public toilets, homelessness help, Police Community Support Officers (PCSOs), engagement and consultation and supporting businesses. Alongside focus group consultation an online budget simulator was made available for the first time in order to engage more of the East Herts population.

As a result of this consultation, it was agreed that the Council would:

- continue to support PCSOs for another year whilst we hold a community safety review
- reduce the consultation budget by £14,000
- reduce but not remove the rent deposit support for people moving into the rental market
- continue to support businesses, subsidising where necessary whilst ensuring where possible that businesses are self funding.

The Council also consults with its staff, the most recent Staff Survey being undertaken in December 2008. The Staff Survey has now become triennial and therefore the next survey is due in 2011.

The Council's Community Voice meetings engaged with the public. Information from these meetings has been used to shape the future development of our vision including future investment and service provision. As part of this process, any impact on governance arrangements has been identified and responded to appropriately. Community Voice will not continue in its current format but Engagement events around specific issues will be considered.

Individual members are active in their localities and with local groups and serve on a number of external bodies.

The Hertfordshire County LSP and the East Herts District LSP are forums for active engagement with wider stakeholders and a mutual holding to account in delivering the Community Plans. The Chairman of the Health Engagement Panel (a standing panel under Community Scrutiny Committee) has a seat on the Hertfordshire Health Scrutiny Committee.

The Council publishes an Annual Report setting out progress on its priorities in the prior year. An Annual Report on Overview and Scrutiny is also published every year.

There is a strategic approach to consultation to ensure the information returned is reliable – the Council has adopted a Consultation Toolkit setting out best practice.

The Council's web site is under constant review to ensure it is of a good standard and that information is easily accessed. A consultation section has been introduced so members of the public can easily access open consultations and information on closed consultations.

The Council manages freedom of information requests effectively to ensure transparency including the corporate governance arrangements. Information is made available on the website to reduce the need for requests.

Review of Effectiveness

Each year, the Council reviews its governance framework including the system of internal control. The process to be adopted for a review is detailed below:

- All Directors, Heads of Service, Members of the Executive and Chairmen of Committees given the opportunity to make contributions.
- Production of a draft Annual Governance Statement.
- Consideration by the Audit Committee.
- Consideration by the Human Resources Committee.
- Consideration by the Corporate Business Scrutiny Committee.
- Consideration by the Standards Committee.
- Consideration by Corporate Management Team
- Consideration by the Executive
- Approval by the Audit Committee.

The next paragraphs give more detail regarding the actual review process, and actions undertaken during 2010/11.

The review of effectiveness is informed by the work of the Directors within the Council who have responsibility for the development and maintenance of the governance environment, the reports by the Internal Audit and Business Improvement Manager and also by comments made by the Council's External Auditors and other review agencies and inspectorates.

The process that has been applied in maintaining and reviewing the effectiveness of the governance framework includes:

The Monitoring Officer has a duty to monitor and review the operation of the Constitution to ensure its aims and principles are given full effect. The Council reviews the Constitution regularly to incorporate any necessary changes.

The Council has three overview and scrutiny committees. The committees can establish 'task and finish' groups, which can look at particular issues in depth, taking evidence from internal and external sources, before making recommendations to their 'parent' Scrutiny Committee and on to the Executive. Four Members can "call-in" a decision which has been made by the Executive but not yet implemented, to enable it to consider whether the decision is appropriate. In addition the Corporate Business Scrutiny Committee can exercise its scrutiny role in respect of Executive functions, Scrutiny Committees will conduct regular performance monitoring of all services, with particular attention to areas identified as under-performing.

The Standards Committee

- In July 2008 the Standards Committee approved processes for local assessment of complaints to be processed. These processes have been updated.
- Assessment Sub-Committees considered eight complaints in 2010/11. No breaches of the Code were identified.

The following complaints that a Councillor had breached the code of conduct were considered during 2010/11.

Complaints considered by the :

Assessment Sub Committee

	Number	**Decision**
District Councillors	5 1	No action Referred for other action
Town / Parish Councillors	2	Referred for other action

Review Sub Committee

District Councillor	4 1	No action Referred for other action
Town Parish Councillor	0	-

Standards Committee Hearing

District Councillor	**1**	**No breach of the Code of Conduct**

The Localism Bill

In the Localism Bill, the Government will abolish the Standards Board regime. Instead, it will become a criminal offence for Councillors to deliberately withhold or misrepresent a personal interest. A local regime will be identified by the authority.

Regulation of Investigatory Powers Act (RIPA) 2000:

The Council complies with the RIPA. The number of directed surveillance authorisations granted since April 2010 was ten of which:
- Eight authorisations were for fly-tipping.
- One authorisation was for anti-social criminal behaviour.
- One authorisation was for fly-posting.

The Audit Committee

Seven Councillors sit on the Audit Committee. The Committee’s terms of reference are detailed below:

Audit Activity
1. To consider the Internal Audit and Business Improvement Manager’s annual report and opinion, and a summary of internal audit activity (actual and proposed) and the

level of assurance it can give over the Council's corporate governance arrangements.

2. To consider summaries of specific Internal Audit reports as requested.

3. To consider reports dealing with the management and performance of the providers of Internal Audit services.

4. To consider a report from Internal Audit on agreed recommendations not implemented within a reasonable timescale.

5. To consider the External Auditor's annual letter, relevant reports and the report to those charged with governance.

6. To consider specific reports as agreed with the External Auditor.

7. To comment on the scope and depth of external audit work and to ensure it gives value for money.

8. To liaise with the Audit Commission over the appointment of the Council's External Auditor.

9. To commission work from internal and external audit.

Regulatory Framework

10. To maintain an overview of the Council's Constitution in respect of rules of procedure relating to contracts, financial regulations and financial procedures and codes of conduct and behaviour.

11. To review any issue referred to it by the Chief Executive or a Director or any Council body.

12. To monitor the effective development and operation of risk management and corporate governance in the Council.

13. To monitor Council policies on "Confidential Reporting" and the anti-fraud and anti-corruption strategy and the Council's complaints process.

14. To oversee the production of the Authority's Annual Governance Statement and to recommend its adoption.

15. To consider the Council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.

16. To consider the Council's compliance with its own and other published standards and controls.

17. To review arrangements for delivering value for money.

18. To review the Council's finances including borrowing, loans, debts investments and banking arrangements.

Accounts

- To approve the annual statement of accounts. Specifically to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.

- To consider the External Auditors' report to those charged with governance on issues arising from the audit of the accounts.

The Audit Committee's work programme and the minutes of its meetings are public documents and are published on the Council's web site.

Internal Audit is responsible for monitoring the quality and effectiveness of systems of internal control. A risk model is used to formulate a 3-year plan, from which the annual workload is identified. The reporting process for Internal Audit requires a report of each audit to be submitted to the relevant chief officer and service manager. The report includes recommendations for improvements that are included within an action plan (and graded as high, medium or low risk). This requires agreement or rejection by relevant chief officer and/or service manager. The process includes follow-up reviews of recommendations to ensure that they are acted upon, usually within six months. All Internal Audit reports include an opinion on the quality and effectiveness of internal control within the Council's systems, and an assessment in accordance with quantification and classification of internal control level definitions.

Substantial assurance	All required controls are in place and functioning correctly, performance indicators are good and no errors were detected during the period of review.
Good assurance	All major controls are in place, some minor controls may be absent or have faltered, performance indicators are good and no errors were detected during the period of review.
Adequate assurance	Major controls are in place, some minor controls may be absent or have faltered, performance indicators suggest no problems and no significant errors were detected during the period of review.
Limited assurance	Major controls have failed or are absent and/or major errors have been detected during the period of review.

Direction of travel statements in respect of any change of audit opinion since the previous review are also contained within all audit reports.

All Internal Audit reports are circulated to members of the Audit Committee and the progress reports on the work of Internal Audit address issues arising from these ratings. The Internal Audit and Business Improvement Manager has a direct reporting line to the Director of Internal Services.

The Internal Audit and Business Improvement Manager's 2010/11 Annual Report has confirmed that the overall level of assurance awarded for systems reviewed is "good".

This represents an unchanged direction of travel. During 2010/11 the Internal Audit team assigned substantial assurance to eight areas, good assurance to twelve areas, adequate assurance to three areas and a limited assurance to IT Procurement.

The Internal Audit service is subject to regular inspection by the Council's External Auditors who place reliance on the work carried out by the section. External Audit have recently concluded that "the Internal Audit service continues to provide an independent and satisfactory service to the Council and that we can take assurance from their work in contributing to an effective internal control environment at the Council". Their review of files confirmed that "no issues were identified with internal audit's work and these (files) were produced to a high standard"

The Hertfordshire Shared Internal Audit Service has taken on responsibility for delivery of the Internal Audit Plan from 1 June 2011. The Shared Internal Audit Service (SIAS) will also deliver a service to Hertfordshire County Council, Hertsmere Borough Council, North Hertfordshire District Council, Stevenage Borough Council and Welwyn Hatfield Borough Council. The three main drivers for this partnership are seen as providing greater resilience, higher levels of performance and greater efficiencies.

The SIAS will in future give one of five levels of assurance: Full, Substantial, Moderate, Limited or No Assurance.

For performance management, a traffic light monitoring and reporting system is in place. Performance data is reported to the Scrutiny committees on a frequent basis, with corrective action plans put in place for any under-performing areas.

In January 2010 the Audit Committee received a report from the External Auditor on the Council's arrangements for audit and scrutiny. The report concluded that the Council had developed the scrutiny function since 2007 and that the Audit Committee had improved its effectiveness. The level of scrutiny at East Herts is considered similar to other councils audited by the External Auditor and "the commitment to scrutiny is strong and well supported by officers". Arising from this report an Action Plan was agreed and six monthly progress reports were presented to Audit Committee during the period November 2009 to November 2010. This action plan is now deemed to have been completed. An evaluation of the scrutiny of C3W is scheduled for Corporate Business Scrutiny Committee to consider in November 2011.

External Audit identified audit risks in their Audit Plan 2010/11 as Accounting under IFRS, Financial performance pressures, revaluation of fixed assets and the C3W project. They have not identified any new risk areas in their Accounts Audit Approach Memorandum in June 2011.

The most significant areas where the self assessment has highlighted further development is needed are set out below. Given the previously highlighted situation of constrained resources, focus has been placed on identifying only significant weaknesses.

The Council's Corporate Management Team has reviewed and approved this Annual Governance Statement.

ACTION PLAN 2011/12

Significant governance issues

The following required enhancements to internal control arrangements were identified during 2010/11 as a result of the review of arrangements and by the work of external and internal audit:

Required enhancements to internal control arrangements:

Milestone	Resp. Off.	Target Date	Actions needed to achieve milestone	Status
Risk that Shared Services programmes fail to deliver required levels of efficiency	Alan Madin	March 2012	• Strategic Business cases to be delivered in respect of services in scope.	**AMBER**
Risk of failure to deliver an effective, efficient and economic IT service	Alan Madin	March 2011 Revised to March 2012	• IT Strategy in place. • All outstanding high risk IT audit recommendations implemented. • Resilient IT business continuity arrangements in place. • IT Procurement undertaken in line with Procurement Regulations.	**AMBER**
The actions arising from the review by the External Auditor of C3W need to be completed and embedded.	Neil Sloper	Nov. 2011	• Completion of C3W Project Plan, • Completion of Scrutiny Committee evaluation of C3W.	**AMBER**
Risk of failure to introduce flexible working arrangements will limit the opportunity to make cost savings, opportunities to work with other partners and	Neil Sloper	March 2011	• Completion of Business Process Improvement process.	**AMBER**

adversely affect staff retention.				
To implement health and safety risk assessments.	Chris Gibson	March 2011 Revised to Sept 2011	• All risk assessments completed and published on the Intranet. • Regular reporting of compliance arrangements in place.	**AMBER**
Hertford Theatre future governance arrangements	George Robertson	June 2013	• Options to be developed to consider financial and other risks during a period of transition.	**AMBER**
CCTV governance issues	Simon Drinkwater	Sept 2011	• New governance arrangements in operation.	**AMBER**
Refuse Contract- to ensure that new contract is embedded.	George Robertson	May 2012	• New contract arrangements seen to be working well in report to Scrutiny Committee after twelve months.	**AMBER**
Ability to maximise efficiencies making use of the Web	Neil Sloper	March 2012	• Put in place monitoring arrangements to review value for money of publishing information and to ensure it meets customer needs. • Arrangements seen to be in place for clarity of published planning information and specifically that Officers should use plain English.	**AMBER**

We propose to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Certification by the Leader of the Council and the Chief Executive

Name **Position** **Date** **Signature**

Councillor A P Jackson	Leader	______________________________
Anne Freimanis	Chief Executive	______________________________

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EAST HERTS COUNCIL

AUDIT COMMITTEE - 21 SEPTEMBER 2011

REPORT BY SHARED INTERNAL AUDIT SERVICES AUDIT MANAGER

INTERNAL AUDIT SERVICE – POSITION STATEMENT

WARD(S) AFFECTED: ALL

Purpose/Summary of Report

- This report provides:

  a) A position statement on internal audit activity undertaken by the Shared Internal Audit Service (SIAS) between 1 June and 19 August 2011; and
  b) An update on the implementation of outstanding audit recommendations.

RECOMMENDATION:	
(A)	**That the report be received.**

1.0 Background

1.1 On 1 June 2011, East Herts District Council Internal Audit Service passed 400 days of the Annual Audit Plan for 2011-12 to the SIAS. One FTE Principal Auditor was TUPE'd over to Herts County Council and has to date, continued to work on delivering the Council's Annual Audit Plan. The Principal Auditor has also undertaken work to support the embedding of the new SIAS ways of working across the Council. In forthcoming months, audit reviews will be delivered by auditors from the SIAS auditor pool which will bring a wider skill set and knowledge to the Council and increase resilience.

1.2 The SIAS appraises financial and non-financial systems and performs consultancy and value for money work. The remit of internal audit is found in three areas, namely providing independent assurance on internal controls, risk based auditing and efficiency reviews.

2.0 Report

2.1 Since the previous Audit Committee in July 2011, reports have been issued on Summer Activities (formerly known as Playschemes), Concessionary Travel, Rural Business Development, Reputation Management, Absenteeism Management and Chairman's and Members' Allowances. Work has also been carried out on Leisure Management Contract, Insurance, IT Controls and the Grounds Maintenance Contract.

2.2 The transition to the SIAS has seen the introduction of a new risk-based auditing methodology and the rolling out of the County Council's Audit Management and Time Recording System, Galileo, to all SIAS employees.

2.3 **Essential Reference Paper 'B'** to this report details progress made against implementing outstanding audit recommendations. Items can only be removed from the follow-up templates when evidence exists to confirm that a recommendation has been actioned.

2.4 The current audit opinion on the status of recommendations is categorised as follows:

- **Resolved:** This status is given where sufficient evidence has been provided and/or testing has been carried out to conclude that the recommendation has been implemented. Once a resolved item is reported to the Audit Committee it is removed from the template.

- **Conditionally Resolved:** This status is given where management do not accept a recommendation. In these cases the Audit Committee require written explanation from the relevant manager.

- **Continue to monitor:** This status is given where reports have only recently been issued and compliance has not been assessed or where partial action has been taken towards full compliance with the recommendation.

- **Risk continues (with warning bell):** This status is given where the recommendation has not been implemented or where insufficient progress has taken place and where the matter is considered to represent a risk for the Council until implementation.

2.5 Good progress has been made in clearing outstanding audit recommendations since the last Audit Committee. The template shows eleven recommendations as resolved.

3.0 Implications/Consultations

3.1 Information on any corporate issues and consultation associated with this report can be found within **Essential Reference Paper ‘A’**.

Background Papers
Internal Audit and Business Improvement Service - Position Statement – Audit Committee 23 March 2011.

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Executive Member for Resources and Internal Support

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Contribution to the Council's Corporate Priorities/ Objectives*:*	**Fit for purpose, services fit for you** *Deliver customer focused services by maintaining and developing a well managed and publicly accountable organisation.*
Consultation:	No public consultations were required during the preparation of this report.
Legal:	There are no additional legal implications to those already contained in this report.
Financial:	There are no additional financial implications to those already contained in this report.
Human Resource:	There are no additional human resource implications to those already contained in this report.
Risk Management:	There are no additional risk management implications to those already contained in this report.

FOLLOW-UP OF AUDIT RECOMMENDATIONS **ESSENTIAL REFERENCE PAPER B**

AREA	RECOMMENDATIONS	RISK	OFFICER & DATE	CURRENT POSITION	BASED ON	CURRENT OPINION
DIRECTOR OF CUST. & COMM. SERVICES						
Sustainability Review (IA Report 20/5/10)	It is recommended that the Sustainable Community Strategy for East Herts 2009 to 2024 is signed and dated as reviewed on a three yearly basis.	Low	Mekhola Ray (Dec 2012)	To be implemented.	Evidence	Continue to monitor
	It is recommended that the Environmental Policy Statement for East Herts is given a title page providing details of the responsible officer, version number and date of review and reviewing officer.	Low	David Thorogood (April 2012)	The Environmental Policy Statement will be included as part of the next annual review of the Climate Change Action Plan.	Evidence	Continue to monitor
	It is recommended that due consideration is given to embedding sustainability in the procedure notes relevant to officers whose work has links with sustainability.	Low	David Thorogood (Sept 2011)	To be implemented. Work is being carried out with HR so that mainstreaming sustainability is incorporated into Job Descriptions.	Evidence	Continue to monitor
	It is recommended that corporate posters are devised reminding staff how to reduce energy and office items that can be recycled.	Low	David Thorogood (Oct 2011)	To be implemented. To carry out once all work at Wallfields has been completed and staff are in their new office space.	Evidence	Continue to monitor
	It is further recommended that these energy efficiency and recycling posters are placed in areas that are accessible to all staff.	Med	David Thorogood (Oct 2011)	To be implemented. To carry out once all work at Wallfields has been completed and staff are in their new office space.	Evidence	Continue to monitor

AREA	RECOMMENDATIONS	RISK	OFFICER & DATE	CURRENT POSITION	BASED ON	CURRENT OPINION
Grounds Maintenance Review (IA Report 09/02/11)	It is recommended that the Grounds Maintenance Procedure notes are signed and dated as reviewed on an annual basis.	Low	Rowan Perrin (December 2011)	Implemented	Assurance	Resolved
	It is recommended that the Council seeks to formalise with John O'Conner (Grounds Maintenance) Ltd the Business Continuity Plan for Grounds Maintenance Service provision after failure or major incident.	Med	Ian Sharratt (July 2011)	John O'Conner are currently reviewing the Business Continuity Plan	Assurance	Continue to monitor
	It is recommended that John O'Conner provide the Play Inspectors with PDA IT support / training.	Low	Ian Sharratt (December 2011)	Implemented	Assurance	Resolved
Car Parking Review (IA Report 09/03/11)	It is recommended that the Decriminalised Parking Enforcement Guidelines are signed and dated as reviewed.	Low	Andrew Pulham 2012/13	This will be actioned at next review.	Audit Review	Continue to monitor
	It is recommended that the Parking Services Procedures notes are signed and dated as reviewed.	Low	Andrew Pulham	To be actioned at next review.	Audit Review	Continue to monitor
	It is recommended that the Service Development Officer carries out quarterly stock checks of Smartcards held by Hertford Town Council Information Centre.	Med	John Cole	Implemented	Evidence	Resolved
Cashiers (IA Report 23/3/11)	It is recommended that an electronic solution to authorising cancellations / reversals is considered as all	Low	Sue Richardson (Dec 2011)	Under consideration	Audit Review	Continue to monitor

AREA	RECOMMENDATIONS	RISK	OFFICER & DATE	CURRENT POSITION	BASED ON	CURRENT OPINION
	cancellations and reversals must be authorised with a documented reason.					
	It is recommended that consideration is given to electronically storing reversal listing reports and transaction listing reports.	Low	Sue Richardson (Dec 2011)	Under consideration	Audit Review	Continue to monitor
	It is recommended that customer facing services take appropriate action to encourage the reduction of cash received via the post from customers.	Low	Neil Sloper (On-going)	Activity is in progress. Considered as part of the BPI review.	Audit Review	Continue to monitor
	It is recommended with the move to increased electronic working that the IT Operations Daily Tasks sheet is made electronic and signed and dated daily.	Med	David Frewin (Sept 2011)	Implemented	Assurance	Resolved
	It is recommended that a Workflow is developed for the processing and authorising of BACS payments. This should be implemented by the time the Causeway Offices are fully vacated.	Med	David Frewin (Sept 2011)	To be actioned	Audit Review	Continue to monitor
	A disaster recovery plan should be put in place for the Cashiers system, Icon, as soon as possible and tested for effectiveness. In the interim, develop clear manual contingency arrangements should the Cashiers system fail for any length of time.	Med	Peter Searle (March 2012)	ICON is covered by ICM Disaster Recovery contract which would implement recovery; time frame for recovery would be dependent on the nature of the incident. Specific testing of ICM disaster recovery arrangements are planned to take place before 31st March 2012.	Assurance	Continue to monitor

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				Business continuity resilience has been enhanced by ICON being maintained in a virtualised environment where possible and migrated onto VMware in June 2011 and is therefore part of the wider VMware business continuity arrangements which are more resilient and being hosted on new servers. Cashiers is a critical system that features in the ICT Business Continuity Plan currently being drafted. In accordance with the ICT 2011/12 Service Plan the Business Continuity Plan is scheduled for completion in September 2011 and desk top testing by end December 2011.		
Carbon Reduction (IA Report 23/3/11)	The Climate Change Action Plan should include timescales for key actions and the name of the lead officer for implementing each action, and these should be submitted to the Environment Scrutiny Committee for approval at the next review.	Low	David Thorogood (April 2012)	To be actioned	Audit Review	Continue to monitor
Recycling (IA Report 18/5/11)	The dispute regarding credits for collection of cans from banks be resolved so that credits can be received.	Med	Trevor Watkins On-going)	Discussions on-going	Audit Review	Continue to monitor
Hertford Theatre (IA Report 19/5/11	It is recommended that where credit vouchers/gift vouchers are processed	Med	Eoin Baird -Immediate	Implemented	Assurance by Eoin	Continue to monitor

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	via the box office system, a process needs to be introduced to ensure that a copy of the relevant credit voucher is attached for reconciliation as part of the daily cash up routine.				Baird	
	It is recommended that the General Manager should perform a regular reconciliation of the Tickets.com Internet sales report to the daily takings sheets to confirm the accuracy of the Tickets.com income reports.	Med	Eoin Baird - Immediate	Implemented	Assurance by Eion Baird	Continue to monitor
	It is recommended that action is taken to ensure that all debtor accounts are paid in full in a timely manner and always in advance of the booked event date.	Low	Eoin Baird- Immediate	Implemented	Assurance by Eoin Baird	Continue to monitor
	It is recommended that the transfer of data between Databox and General Ledger should be automatic with no manual manipulation of data. There should be no manual intervention whatsoever. Procurement of the appropriate IT software should be undertaken urgently. In the meantime it is recommended that the daily takings reports are reconciled to the postings extract report to ensure that any extract errors (i.e. duplicate postings) are identified prior to the data being uploaded to the	High	Eoin Baird (asap)	The supplier Ticket.com has unlocked the system to allow the ICT Development Team to attempt automated data transfer within the new system parameters. Initial testing as at 11.8.11 has not permitted automatic transfer and checking of drivers by Ticket.com has not resolved the interface problems. Further Development work is required to restore or develop a new interface allowing automated data transfer.	Assurance from D.Short (ICT Project Analyst) 11.8.11	Continue to monitor

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	general ledger. Whilst there is manual intervention the General Manager should not be involved in the processing of banking.					
Concessionary Travel (IA report 23/08/11	To consider implementing a formal agreement with Herts County Council for the payment contributions of subsidised bus routes.	Merits Attention	Valdis Belinis (April 2012)	Not implemented.	Assurance	Continue to monitor
	There is no up to date list of subsidised bus routes. The list in place is from the 2010/11 financial year and contained routes that are no longer in operation.	Merits Attention	Valdis Belinis (April 2012)	Implemented.	Evidence	Resolved
	There is no monitoring of expected and actual payments to Herts County Council, Sawbobus and Bishops Stortford Minibus Trust for Community Transport and Local Bus Services.	Medium	Valdis Belinis (April 2012)	Not implemented.	Evidence	Continue to monitor
Rural Business Development (IA report 25/08/11)	It is recommended that exceptions to incomplete files are included within procedure notes.	Merits Attention	Kari Hall (Sep 2011)	Not implemented.	Evidence	Continue to monitor
	It is recommended that the projected grants and actual grants claimed spreadsheet is signed and dated by the preparing officer and signed and dated as reviewed by a reviewing officer on a quarterly basis.	Medium	Kari Hall (Nov 2011)	Not implemented.	Evidence	Continue to monitor

AREA	RECOMMENDATIONS	RISK	OFFICER & DATE	CURRENT POSITION	BASED ON	CURRENT OPINION
Reputation Management (25/08/2011)	It is recommended that the Customer Services Manager reminds 3C's Champions to update customer service records with the actions taken on complaints within their service area. It is further recommended that where appropriate the Customer Services Manager updates Senior Management on complaints that are dealt with outside of 10 working days.	Medium	Sue Richardson (ongoing)	Not implemented.	Assurance	Continue to monitor
	It is recommended that Communication Plans are put in place for each service area.	Medium	Lois Prior (April 2012)	Not implemented	Evidence	Continue to monitor
	It is recommended that press releases and statements are signed and dated as approved either by an email trail or an officer signature on working papers.	Merits Attention	Lois Prior	Implemented	Evidence	Resolved
DIRECTOR OF INTERNAL SERVICES						

AREA	RECOMMENDATIONS	RISK	OFFICER & DATE	CURRENT POSITION	BASED ON	CURRENT OPINION
ICT Remote Access Review 8/6/09	Intrusion detection Software (IDS) and an incidence response policy should be implemented to detect unauthorised activity on the remote system.	Med	David Frewin (Revised to September2011) David Frewin (revised to October 2011)	New Firewall with increased IDS procured but awaiting final parts. Subject to supplier aiming to be installed in May 2011.Yet to be tested.	Evidence	Continue to monitor
	A network security and remote access policy should be established.	Med	David Frewin revised to September 2011)	As above and Lightweight Directory Access Protocol to be used if available. Yet to be tested.	Evidence	Continue to monitor
	Netscreen password policy settings should be reviewed. Netscreen to be accessed through the Active Directory if possible.	Med		As above this work will be completed in May 2011 with administration password changes. Yet to be tested.	Assurance by David Frewin	Continue to monitor
Follow-up of Various ICT Reviews (IA Report 22/6/09)	It is recommended that options for ICT business continuity are reviewed before expensive solutions are commissioned. These should take into account the possible mid-term accommodation changes under consideration.	High	Peter Searle/ David Frewin/ Peter Bowler (revised to December 2011)	ICM Business Continuity contract extended to reflect service needs agreed by Business Continuity Groups. Draft business continuity plan has been prepared. Initial meeting with ICT Managers scheduled to take place 1/9/11 with a view to completing ICT Business Continuity Plan by end September 2011 in accordance with Service Plan. Findings of Research & development on fire suppression to be reported to the next Business Continuity Group Meeting.	Evidence	Continue to monitor

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	It is recommended that as part of the ICT Strategy development, a review of the main application systems is undertaken, as this could only be done at a superficial level in this review.	Med	BPI Leaders in line with C3W. Peter Bowler to action (Dec 2011)	Review underway.	Evidence	Continue to monitor
	A detailed timetable be prepared and issued to ensure that the Council's Business Continuity and Disaster Recovery Plan is completed and tested.	High	Peter Searle (revised to March 2012)	2011/12 Service Plan reflects need for ICT Business Continuity Plan to be approved by CMT by end September and then desk top tested by December 2011 and annually thereafter. Systems recovery testing to take place by 31 March 2012.	Evidence	Continue to monitor
	Consideration be given to introducing visual reminders on the importance of prompt reporting of actual or suspected breaches of IT security.	Med	David Frewin (October 2011)	To be actioned by end of October 2011 in line with completion of works associated with Government Connect Code of Connection	Assurance by David Frewin	Continue to monitor
	Ensure that all recommendations from the most recent penetration testing report are implemented. Should the report be out of date, consideration should be given to retesting.	High	David Frewin (October 2011)	External penetration test completed. Internal review undertaken but yet to be evidenced. Next penetration testing is scheduled for October 2011 and evidencing of testing to be enhanced in line with audit recommendations.	Assurance by David Frewin	Continue to monitor
	The Information Technology Team should approve and oversee the implementation of the Council's Information Systems Strategy.	High	Peter Searle (March 2012)	The ICT Strategy will be reviewed by March 2012 to encompass the post C3W project environment and shared service arrangements for ICT. Given potential truncated	Evidence/ Assurance by Peter Searle	Continue to monitor

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				timeline for implementation of shared ICT service arrangements, a shared ICT Services Workshop on 26th July 2011 held a consensus view that the next ICT Strategy refresh should be a consolidated Shared Services Strategy containing provisions for unique/ specific authority issues. The view held was that an interim strategy would represent abortive work..		
	Management should revise the division of duties within IT, with a view to ensuring that all incompatible duties be separated and that adequate independent review of key controls and procedures is performed.	High	Alan Madin	Staff structure/duties reviewed and reported for consideration by Director of Internal Services in January 2011. C3W work and shared services options analysis has impacted on the time line for further consideration & implementation	Evidence	Continue to monitor
	IT management should consider the implementation of fire suppression systems in the Council's two computer rooms.	High	David Frewin (June 2011)	Findings on the fire suppression will be reported to the next Business Continuity Group Meeting.	Evidence	Continue to monitor
Fraud & Corruption Overview (IA Report 9/4/10)	The Council should set a series of counter fraud objectives and monitor performance against these to the Audit Committee to effectively communicate how the Council increases fraud awareness and reduces actual frauds committed	Med	Chris Gibson	This area is under review. Responsibility for Internal Audit transferred to Shared Internal Audit Service from 1June 2011.	Evidence	Continue to monitor

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	against the Council, e.g. reporting progress in the National Fraud Initiative.					
Asset Management (IA Report 21/9/10)	It is recommended that the Accountancy Asset Management Procedure Notes are included within the review of electronic working and that they are updated to reflect all areas of work within the Asset Management system including acquisition, recording and disposal of assets.	Low	Mandy Barton (June 2011)	The Asset Management Procedure Notes are under review.	Evidence	Continue to monitor
	It is further recommended that Asset Management procedure notes are reviewed and updated for the Estates Surveyors.	Low	Martin Shrosbree July 2011)	There has been a delay in updating procedure notes due to the Wallfields refurbishments. The procedure notes to be updated once the BPI review has been completed and will incorporate recommendations from this review.	Evidence	Continue to monitor
	It is recommended that a project is undertaken to merge the two versions of the Asset Register held by Accountancy and the Asset and Estate Manager and that the project considers references to the Asset Management layer on GIS Property Terrier.	Med	Martin Shrosbree/ Paul Mitchell (March 2012)	This project will be addressed after staff move to Wallfields and will be presented to the Operational Risk Management Group.	Evidence	Continue to monitor
	It is recommended that a Land Inspection Policy and Programme of	Med	Graham Mully (Ongoing)	Arrangements are in place. However, there will be no sign off	Evidence	Continue to monitor

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	site inspections is devised and consideration is given to the frequency needed at visiting each site. It is further recommended that each site visit is documented and includes the name of the inspecting officer and the date of inspection.			until the final certificate is issued with the year end close down.		
	It is recommended that the land and buildings asset valuation working papers are signed and dated by the Estate Surveyor carrying out the valuation.	Low	Anna Osbourne (Sep 2011)	Yet to be evidenced.	Evidence	Continue to monitor
	It is recommended that a new tenancy for Northolt UFC is set up at a nominal rent to avoid the cost of invoicing and that non commercial properties are reviewed by Members to consider the continued use of commercial properties.	Low	Anna Osborne (Sep 2011)	This has not been prioritised due to workloads. A tenancy for Bishops Stortford Community Football Club (change of name) will be set up for an appropriate period.	Evidence	Continue to monitor
Payroll Review (IA Report 18/01/11)	It is recommended that the need for a HelpDesk User on Delphi is reviewed and deleted if deemed to be not required.	Low	Gill Coleman/ David Frewin -Immediate	**Implemented**	Evidence	Resolved
	It is recommended that half way though the Financial Year Payroll Manager signs and dates as reviewed the Tax Deducted P.A.Y.E to the Tax Paid P.A.Y.E.	Low	Gill Coleman (Sept 2011)	To commence as agreed.	Audit Review	Continue to monitor

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	It is recommended that with the move to increased electronic working that an electronic control sheet is signed and dated by the transfer authoriser. It is further recommended that a Workflow is developed for the processing and authorising of BACS payments. This should aim to be implemented by the time the Causeway is fully vacated.	Med	David Frewin (Sept 2011)	To be considered after the server room moves from Bishop's Stortford to Hertford.	Audit Review	Continue to monitor
	A disaster recovery plan should be put in place for the Payroll/HR system, Delphi-Millennium as soon as possible and tested for effectiveness. In the interim, develop clear manual contingency arrangements should the Payroll/HR system fail for any length of time.	High	David Frewin (March 2012)	Systems recovery testing to be undertaken by the end of 2011/12 financial year.	Audit Review	Continue to monitor
Main Accounting (IA Report 23/3/11)	The contingency plan to be used in the event of IT failure on the Radius Powersolve system should be tested.	Med	David Frewin (March 2012)	Systems recovery testing to be undertaken by the end of 2011/12 financial year.	Audit Review	Continue to monitor
Sundry Debtors (IA Report 23/3/11)	It is recommended that the frequency of reporting Sundry debts to CMT is reviewed and that this should be at least an annual exercise.	Low	Simon Chancellor. (December 2011)	To be actioned. This will become the responsibility of Financial Services from August.	Evidence	Continue to monitor
Creditors (IA Report 13/5/11)	It is recommended that all information held on the Intranet in respect of Procurement should be reviewed to ensure that it is current. Consideration should be given to production of a revised Procurement Toolkit. This will need to pick up the necessity for a	Med	Tracey Sargent (September 2011)	Procurement information on the Intranet and Procurement Regulations under review.	Audit Review	Continue to monitor

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	consistent corporate approach towards evaluating tenders. It is recommended that the Procurement Officer reminds all Council departments of the need to inform the Procurement Team when going out to tender and entering into a contract and that a Central Contracts Register is maintained.	Med	Tracey Sargent (June 2011)	Implemented.	Audit Review	Resolved
IT Procurement (IA Report 26/5/11)	The IT asset register should be reviewed and updated to ensure that all IT assets can be traced.	High	David Frewin (December 2012)	The asset register is currently being updated following the C3W Office moves and a full inventory check will be undertaken in December 2011.	Assurance	Continue to monitor
Health & Safety (IA Report 8/6/11)	It is recommended that each Head of Service is required to complete a Health and Safety Risk assessment by July 2011.	High	CMT (July 2011)	Heads of service have been reminded; however these have not yet been submitted.	Evidence	Continue to monitor
Chairman & Member Allowances (IA Report 25/08/11)	It is recommended that the Constitution and Financial Regulations are placed within the corporate core on the intranet and on the Councillors, Committees and Council Information pages on the intranet.	Merits Attention	Jeff Hughes (August 2011)	Not implemented	Evidence	Continue to monitor
	It is recommended that Members are requested to submit their mileage claims on a regular basis.	Merits Attention	Jeff Hughes (August 2011)	Not implemented	Evidence	Continue to monitor
	It is recommended that the Payroll	Merits	Gill Coleman-	Implemented.	Evidence	Resolved

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	Manager / Payroll Officer sign and date the Members' Allowances Scheme Claim Form confirming the claim forms have been checked prior to processing.	Attention	immediate			
	It is recommended that all payments made to the Chairman, Vice Chairman and Members are made through the payroll to ensure appropriate and accurate deductions are made.	Medium	Gill Coleman / Jeff Hughes (March 2012)	Not implemented	Evidence	Continue to monitor
Absenteeism Management (IA Report issued 05/09/11)	It is recommended that managers are reminded of the Absence Management policy and how to manage cases when trigger points are raised.	High	Emma Freeman (October 2011)	Not implemented	Evidence	Continue to monitor
	It is recommended that Heads of Service should ensure that monthly sickness statistics are reviewed and discussed with Managers to ensure that appropriate action is being taken to monitor long term and repeated staff sickness.	Medium	Emma Freeman (October 2011)	Not Implemented	Evidence	Continue to monitor
	It is recommended that the Absence Management Policy is signed and dated as reviewed and updated to include clear guidance to managers on holding Health Review meetings and the requirement to keep HR informed of all actions and progress.	Merits Attention	Emma Freeman (March 2012)	Not Implemented	Evidence	Continue to monitor

AREA	**RECOMMENDATIONS**	**RISK**	**OFFICER & DATE**	**CURRENT POSITION**	**BASED ON**	**CURRENT OPINION**
	It is recommended that after each review, staff are reminded of the Absence Management Policy.					
DIRECTOR OF NEIGHBOURHOOD SERVICES						
Emergency Planning (IA Report 28/05/10)	It is recommended that a review of information stored on the Emergency Planning Access database is carried out.	Low	Brian Simmonds (December 2011)	Yet to be implemented. This is being worked towards and aimed for completion before the end of the year.	Evidence	Continue to monitor
	It is recommended that a formal agreement is signed and dated by EHDC and HCC outlining the support and costs of the support provision for Emergency Planning.	Med	Brian Simmonds (revised to December 2011)	Meetings have taken place with HCC who are responsible for redrafting the document; however there is a delay from another Council.	Evidence	Continue to monitor
Improvement Grants (IA Report 1/9/10)	It is recommended that the Private Sector Housing Assistance Policy is signed and dated at the time of each review.	Low	Sheila Winterburn (Dec 2011)	Delay due to staff sickness. Due to be approved by Executive in December 2011.	Evidence	Continue to monitor
Licences (IA Report 8/10/10)	It is recommended that procedure notes for the processing, invoicing, banking and renewal of Environmental Health Licences are written in consultation with Environmental Health Officers, and signed and dated as reviewed on a regular basis.	Med	Paul Thomas (Dec 2011)	Ongoing. Procedure notes to be updated in line with BPI review.	Evidence	Continue to monitor
	It is recommended that as part of the move to providing electronic licence applications that a workflow is	Med	IT/ Paul Thomas (Dec 2011)	Currently being considered as part of the proposal for a new joint Environmental Health/Licensing	Evidence	Continue to monitor

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	implemented to ensure that applications or Environmental Licences cannot be submitted without all required supporting documentation.			application.		
	It is recommended that on a quarterly basis a spot check is carried out of new licence applications fees to ensure that payments have been recorded in Radius.	Med	Paul Newman (Dec 2011)	Good progress made. Awaiting training from Accountancy.	Evidence	Continue to monitor
Homelessness, Allocations & Nominations (IA Report 15/10/10)	It is recommended that the Housing Register and Allocations Policy sets out the period of the policy and is signed and dated as reviewed at least annually unless there is a material change to legislation or best practice that makes the document unsound or earlier as maybe determined by the Council in consultation with the partners.	Low	Claire Bennett (June 2011)	Implemented	Audit Review	Resolved
	It is recommended that as upgrades to the Housing Allocations Software occur, drop down menus are developed for the allocation of manual points.	Med	Janet Boyd (Sept 2011)	Action agreed. An upgrade is being sought from the software supplier Locator in partnership with other system users.	Evidence	Continue to monitor
	It is recommended that a programme timetable is implemented for the migration of data from Saffron to Locator.	Low	IT & Housing Options (December 2011)	Extraction of data for migration will take place when Locator upgrade is installed.	Evidence	Continue to monitor

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Commuted Sums (IA Report 11/03/11	It is recommended that the respective roles and responsibilities of the Development Control, Legal and Finance sections be clarified and documented.	Med	Kevin Steptoe (September 2011)	This remains to be documented	Evidence	Continue to monitor
Building Control (IA Report 15/4/11)	It is recommended that quality assurance processes be established to ensure that independently determined charges are set to fully cover costs.	Med	Kevin Steptoe (June 2011)	Implemented.	Evidence	Resolved
Business Continuity (IA Report 7/6/11)	It is recommended that Heads of Service complete a business impact review to reflect the changing work environment at Wallfields.	Med	Heads of Service (Sept 2011)	On-going exercise	Audit Review	Continue to monitor
	It is recommended that the Business Continuity Plan is reviewed annually. It is further recommended that the Business Continuity Plan is communicated to staff and made available on the intranet.	High	Simon Drinkwater (Sept 2011)	Zurich Insurance is conducting a scoping workshop to take account of C3W implications.	Audit Review	Continue to monitor
	It is recommended that the Business Continuity Corporate Group meet on a regular basis until the Business Continuity Plan is approved, and thereafter on a six monthly basis to review the plan.	High	Simon Drinkwater (Sept 2011)	The outcomes from the Zurich workshop will act as a trigger for this group.	Audit Review	Continue to monitor
	It is recommended that the Business	Med	Simon	Contractor responsibility will be	Audit	Continue

AREA	**RECOMMENDATIONS**	**RISK**	**OFFICER & DATE**	**CURRENT POSITION**	**BASED ON**	**CURRENT OPINION**
	Continuity Plan includes contractor responsibility.		Drinkwater (Dec 2011)	considered under the revised Plan.	Review	to monitor
	As per the 2011-12 Business Support ICT Service Plan it is recommended that the Disaster Recovery Plan is finalised and approved and includes a section on the ability to recovery data and a section on IT back-up. It is further recommended that the Disaster Recovery Plan is tested after it has been finalised.	High	Peter Searle (March 2012)	ICT Service Plan requires an ICT Business Continuity Plan to be in place by end of September 2011 and desk top tested by end of December 2011. Application recovery testing to take place before end March 2012.	Audit Review	Continue to monitor
VARIOUS						
C3W Programme (EA Report) March 2010)	When undertaking an options appraisal the Council should set clear scoring criteria which gives all scenarios considered the chance to be the preferred option. This should be done in advance of developing the options for use in identifying the best solution.	Med	CMT Martin Shrosbree (revised to March 2012)	Agreed in proportion and subject to feasibility in particular cases. Will be able to implement as part of the Bircherley Green project. The 2008-12 Asset Management Strategy will be reviewed in 2012. It will include a statement on broad criteria and scoring to be applied. These to be refined for particular projects.	Evidence	Continue to monitor
	The Council should consider identifying, in advance of major property transactions, the requirements for gateway reviews to ensure an independent 'sense check' at key decision points.	High	Martin Shrosbree (revised to March 2012)	The Asset Management Strategy to include a statement on expected gateway review points.	Evidence	Continue to monitor

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EAST HERTS COUNCIL

AUDIT COMMITTEE – 21 SEPTEMBER 2011

REPORT BY LEADER OF THE COUNCIL

RISK MONITORING REPORT (1 MAY TO 30 JUNE 2011)

WARD(S) AFFECTED: ALL

Purpose/Summary of Report

- This report relates to action taken to mitigate and control strategic risks during May and June 2011.

RECOMMENDATION FOR: AUDIT COMMITTEE	
(A)	The action taken to mitigate and control strategic risks during the period 1 May to 30 June 2011 be noted.

1.0 Background

1.1 The 2010/11 Strategic Risk Register was considered by Audit Committee on 12 July 2011. The register has been revised for 2011/12, and actions taken to mitigate risks have been updated. This is attached at **Essential Reference Paper 'B'**.

1.2 Risk management remains a key business process and a sound system of internal control.

2.0 Report

2.1 Risk is defined as something happening that may have an impact on the achievement of the Council's objectives. Risk management is about managing threats and opportunities to create an environment of "no surprises". By managing risks effectively, the Authority is placed in a stronger position to deliver services in accordance with its corporate priorities. By managing opportunities, it is better positioned to provide continuous improvement in its services and better value for money.

2.2 The following system of rating has been adopted:

Rating the potential impact if the risk was to occur using the following scores

5 Catastrophic
4 Major long term impact
3 Major short term impact
2 Moderate long term impact
1 Moderate short term impact
0 Little impact

Rating the likelihood of occurrence using the following scores

5 Highly probable (95% or more chance)
4 Very probable (70% to 95% chance)
3 Probable (30% to 70% chance)
2 Moderate (10% to 30% chance)
1 Unlikely (less than 10% chance)
0 Remote (below 1% chance in foreseeable future)

These scores are further assessed to classify whether risks are considered to be critical, caution / contingency or control.

2.3 Attached at **Essential Reference Paper 'B'** is a list detailing mitigating actions carried out during the period 1 May to 30 June 2011, together with planned mitigating actions. This information was presented to Executive on 6 September 2011 as part of the Corporate Healthcheck report. (Any comments received will be reported verbally). Full progress comments can be accessed by referring to the Council's performance management system, Covalent (**www.covalentcpm.com/eastherts**).

3.0 Implications/Consultations

3.1 Information on any corporate issues and consultation associated with this report can be found within **Essential Reference Paper 'B'**.

Background Papers

Risk Monitoring Report (1 February to 30 April 2011) – Audit Committee 12 July 2011.

Contact Member: Councillor Anthony Jackson

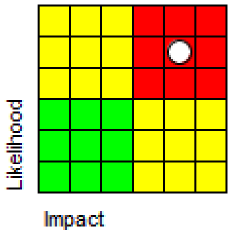
Leader of the Council

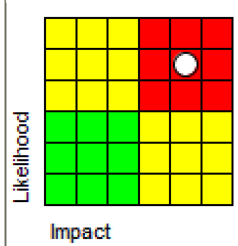
Contact Officer: Simon Drinkwater
Director of Neighbourhood Services
Ext. 1405

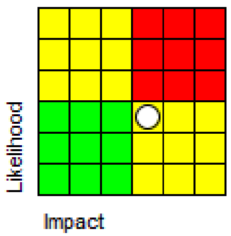
Report Author: Graham Mully
Risk Assurance Officer
Ext. 2166

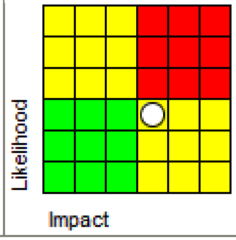
Contribution to the Council’s Corporate Priorities/ Objectives *(delete as appropriate):*	**Fit for purpose, services fit for you** *Deliver customer focused services by maintaining and developing a well managed and publicly accountable organisation.*
Consultation:	There are no specific consultation implications arising directly from this report.
Legal:	There are no specific legal implications arising directly from this report.
Financial:	There are no specific financial implications arising directly from this report.
Human Resource:	There are no specific human resource implications arising directly from this report.
Risk Management:	There are no additional risk management implications to those already contained in this report. However, it should be noted that if East Herts did not have a risk management monitoring process, the Authority would be seen to be not managing risks appropriately, which would have a significant negative impact on recommendations made by the External Auditors through the Annual Audit Letter.

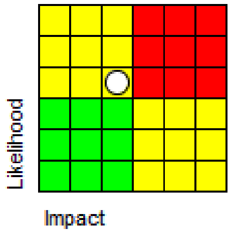
Strategic Risk Register 2011/12 – May and June 2011

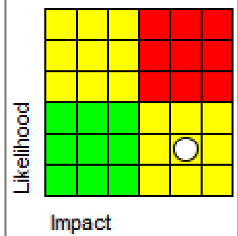
Code	Title	Description	Current Risk Matrix	Impact	Likelihood	Managed By	Latest Note
SR1	Risk of significant reduction in funding above that planned for.	There is uncertainty around future funding, both from Government and other areas such as income from commodities markets for recycled materials. There are cost pressures combined with an increased awareness and scrutiny of financial position.		4	4	Alan Madin	May and June 2011: The Medium Term Financial Plan update will establish planning parameters to address future funding forecasts. The final account 2010/11 saw reserves maintained at a healthy level with no transfers to earmarked reserves beyond those set out in the February 2011 budget.

Code	Title	Description	Current Risk Matrix	Impact	Likelihood	Managed By	Latest Note
SR2	Risk of a loss of capacity / capability and flexibility to deliver service levels we would like.	There are challenges around workforce planning to ensure the Council is fit for the future, in terms of workforce skills, capacity and flexibility.		4	4	Alan Madin	May and June 2011: Service restructures are planned, and organisational change and development put in place. Corporate training plan 2011/12 agreed and moved to implementation.

Code	Title	Description	Current Risk Matrix	Impact	Likelihood	Managed By	Latest Note
SR3	Risk that supplier / contractor or key third sector partner fails or fails to deliver.	A number of key external and internal services are delivered through major contracts, both directly and in consortia. This is both through private sector supply chains and in conjunction with the voluntary and third sector.		3	2	George Robertson	May and June 2011: Regular contract management meetings and appropriate reviews are in place for all major service arrangements.

Code	Title	Description	Current Risk Matrix	Impact	Likelihood	Managed By	Latest Note
SR4	Risk that investment and effort does not deliver benefits and returns.	Moving more towards shared services with other public sector partners. Potential for lack of consistent political buy-in by all partners resulting in considerable effort without benefit. There is also a challenging skill set for managers due to the complexity.		3	2	Alan Madin	May and June 2011: A programme management approach has been adopted to manage risks. A strategic business case is being developed.

Code	Title	Description	Current Risk Matrix	Impact	Likelihood	Managed By	Latest Note
SR5	Risk of being unable to long term strategically plan.	There is uncertainty on overall future government policy and a number of changes required without accompanying resource.		2	3	Anne Freimanis	May and June 2011: Monitoring of Government policy continuing. CMT and Executive considering implications as they emerge.

Code	Title	Description	Current Risk Matrix	Impact	Likelihood	Managed By	Latest Note
SR6	Risk that SMG does not implement Council policies in a coherent and consistent way.	There could be a lack of consistency and cohesion at senior management levels of implementing decisions.		4	1	Simon Drinkwater	May and June 2011: All matters for decision are reported to the appropriate body. All decisions are recorded. There is a detailed work plan.

EAST HERTS COUNCIL

AUDIT COMMITTEE - 21 SEPTEMBER 2011

REPORT BY MANAGER OF CORPORATE RISK

2011/12 AUDIT COMMITTEE WORK PROGRAMME

WARD(S) AFFECTED: ALL

Purpose/Summary of Report

- This report provides a revised Audit Committee work programme for the 2011/12 civic year for consideration and approval.

RECOMMENDATION:	
(A)	**That the revised work programme for the Audit Committee be approved.**

1.0 Background

1.1 The Audit Committee is now in its sixth civic year and as part of the governance arrangements its work programme was reviewed and approved by the Audit Committee on 23 March 2011.

2.0 Report

2.1 A revised Audit Committee work programme for the 2011/2012 civic year is given at **Essential Reference Paper "B"** .

2.2 Amendments have been made to include the Treasury Management Strategy Statement and Data Sharing Protocol.

3.0 Implications/Consultations

3.1 Information on any corporate issues and consultation associated with this report can be found within **Essential Reference Paper.**

Background Papers
Audit Committee Work Programme 2011/12- Audit Committee 12 July 2011.

Contact Member: Councillor Jim Ranger
Chairman of Audit Committee

Contact Officer: Alan Madin
Director of Internal Services
Ext 1406

Report Author: Chris Gibson
Manager of Corporate Risk
Ext 2073

Contribution to the Council's Corporate Priorities/ Objectives:	**Fit for purpose, services fit for you** *Deliver customer focused services by maintaining and developing a well managed and publicly accountable organisation.*
Consultation:	The requirements of the Audit Commission and our External Auditor Grant Thornton UK LLP have been sought and fully accommodated.
Legal:	There are no additional legal implications to those already contained in this report.
Financial:	There are no additional financial implications to those already contained in this report.
Human Resource:	There are no additional human resource implications to those already contained in this report.
Risk Management:	There are no additional risk management implications to those already contained in this report.

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Audit Committee Work Programme 2011/12 Civic Year

Committee Date	Agenda Items
12 July 2011	• The Role of the Audit Committee- Training item • External Audit report- Review of Arrangements for Implementation of IFRS. • External Audit report- Accounts Audit Approach Memorandum • External Audit report- Annual Governance Statement • External Audit report- Certification Work- Planning Memo 2010-11. • External Audit report- Indicative Audit Fees 2011/12 • Draft Statement of Accounts 2010-2011. • Internal Audit Service 2010/11. • Internal Audit Service- Position statement. • Shared Internal Audit Service. • Risk Management monitoring report 1 February 2011 to 30 April 2011. • Update on Implementation of Annual Governance Statement Action Plan. • Draft 2010/11 Annual Governance Statement. • Audit Committee Work Programme.
21 Sept 2011	• Treasury Management- Members training • Statement of Accounts • External Audit Annual Report to those charged with Governance (ISA 260 Report). • External Audit report on Financial Resilience Work. • Treasury Management Strategy Statement and current year review. • 2010/11 Annual Governance Statement. • Internal Audit Service- Position statement. • Risk Management monitoring report 1 May 2011 to 30June 2011. • Audit Committee Work Programme.
23 Nov 2011	• Conclusion of 2010/11 Audit of Accounts. • External Audit report- 2010/11 Annual Audit Letter. • Council response to 2010/11 Annual Audit Letter • External Audit report – Final External Audit plan 2011/12. • Update on implementation of Annual Governance Action Plan. • Internal Audit Service- Position statement. • Risk Management monitoring report 1 July 2011 to 30 September 2011. • Data Sharing protocol. • Audit Committee Work Programme.
18 January 2012	• External Audit- Progress Report • Update on implementation of Annual Governance Action Plan. • Internal Audit Service- Position statement. • Audit Committee Work Programme.
14 March 2012	• External Audit report – Audit Plan for 2012/13 and Fees. • External Audit report – Grants 2010/11 • Update on implementation of Annual Governance Action Plan. • Internal Audit Service- Position statement. • Internal Audit Plan 2012/13. • Risk Management monitoring report 1 October 2011 to 31January 2012. • Annual Review of Data Quality Strategy. • Audit Committee Draft Work Programme 2012/13 Civic Year.

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